Executive Summary of the Acting Municipal Manager

The application of sound financial management principles for the compilation of the district wide financial plan is essential and critical to ensure that the district remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The district business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The municipality has undertaken various customer consultation initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51, 54, 55, 58, 59 and Division of Revenue Bill 2012 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity bulk infrastructure;
- The need to re-priorities projects and expenditure within the existing resource envelope given the cash flow realities and the cash position of the municipality;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – the municipal allocation relating to infrastructure grant associated with capital investment has been withdrawn (Municipal Infrastructure Grant), thus limit the functions of the District in relation to bulk infrastructure investment for the budget year 2012/13 MTREF and beyond; and
- Availability and/or affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2011/12 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- An upper limit of R7,4 million was set for the following items and allocations to these items had to be supported by a list and/or motivation setting out the intention and cost of the expenditure which was used to prioritise expenditures:
    - Bursary fund;
    - Establishment of disaster;
    - ICT and Programming;
    - Rural and agriculture development;
    - SMME Development; and
    - Youth development programme.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2012/13 MTREF

	Adjustment Budget	Budget Year +1	Budget Year +2	Budget Year +3
R thousand	**2011/12**	**2012/13**	**2013/14**	**2014/15**
Total Operating Revenue	106,254,988	84,491,455	86,524,558	90,871,080
Total Operating Expenditure	72,288,185	79,112,205	81,315,326	86,054,694
Surplus / (Deficit) for the year	33,965,803	5,379,251	5,209,232	4,816,386
Total Capital Expenditure	33,965,803	5,379,251	5,209,232	4,816,386

Total operating revenue has declined by 20 per cent or R22 million for the 2012/13 financial year when compared to the 2011/12 Adjustments Budget. For the two outer years, operational revenue will increase by 2.4 and 5 per cent or R2 million and R4.3 million respectively, equating to a total revenue growth of R6.3 million over the MTREF.

Total operating expenditure for the 2012/13 financial year has been appropriated at R79 million and translates into a budgeted surplus of R5.3 million, when compared to the 2011/12 Adjustments Budget, operational expenditure has increased by 11 per cent in the 2012/13 budget and by 3 and 6 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years decreased to R5.2 million and R4.8 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R5.3 million for 2012/13 is R28.5 million less when compared to the 2011/12 Adjustment Budget. The decrease is due to decrease in operational grant as to compare to the adjustment budget 2011/2012. The capital programme continues to decreases to R5.2 million in the 2013/14 financial year and then evens out in 2013/14 to R4.8 million. The entire capital budget will be funded from own source revenue realized from savings in the operating revenue over MTREF.

1.1 Operating Revenue Framework

For Thabo Mofutsanyana District Municipality to continue improving the quality of services provided to its citizens and the support to its local municipality within the district it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty.

The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the District and continued economic development;
- Efficient revenue management;
- The wide district financial recovery plan;

The following table is a summary of the 2012/13 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Description	Current year 2011/2012		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Original Budget	Adjustment Budget	2012/13	2013/14	2014/15
Revenue by Source	-	-	-	-	-
Property rates	-	-	-	-	-
Property rates - penalties & collection charges	-	-	-	-	-
Service charges - electricity revenue	-	-	-	-	-
Service charges - water revenue	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-
Service charges - refuse revenue	-	-	-	-	-
Service charges - other	-	-	-	-	-
Surplus cash at the beginning of the year	-	8,663,777	-	-	-
Interest earned - external investment	806,744	1,514,640	1,533,573	1,552,743	1,592,493
Operating grants	76,459,000	94,182,511	80,565,000	82,220,000	86,114,000
Other revenue	1,914,306	1,914,306	2,392,883	2,751,815	3,164,578
Transfers recognised to operation	-	-	-	-	-
Gain on disposal of PPE	-	-	-	-	-
Total Revenue (Excluding capital transfers and contribution)	79,180,050	106,275,234	84,491,456	86,524,558	90,871,080

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

Operating grants and transfers forms a significant percentage of the revenue basket for the municipality. Operating grants and transfers totals R80 million in the 2012/13 financial year and steadily increases to R82 million by 2013/214 and R86 by 2014/15 respectively. Note that these decline and growth on year-on-year for the 2012/13 financial year is -20 per cent and then flattens out to 2.4 and 5 per cent in the two outer years. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

Description	Current year 2011/2012		2012/13 Medium Term Revenue &		
R thousand	Original	Adjustment	2012/13	2013/14	2014/15
RECEIPTS:					
<u>Operating Transfer and Grants</u>					
National Government:					
Local Government Equitable Shares	72,399,000	70,499,000	76,578,000	80,100,000	83,914,000
Financial Management Grant	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Municipal System Improvement Grant	790,000	790,000	1,000,000	870,000	950,000
EPWP Incentive Grant	2,020,000	2,020,000	1,737,000		
Provincial Government:					
Legal Support – Cogta	-	2.000.000	-	-	-
Other Grant Providers:					
Motheo District Grant	-	17,623,511			
Total Operating Transfer and Grants	76,459,000	96,042,511	80,565,000	82,220,000	86,114,000

1.2 Operating Expenditure Framework

The Municipality's expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

Table 4 Summary of operating expenditure by standard classification item

Description	Current year 2011/2012		2012/13 Medium Term Revenue & Expenditure Framework		
R thousand	Original Budget	Adjustment Budget	2012/13	2013/14	2014/15
Expenditure By Type					
Employee related costs	27,684,081	28,088,627	40,682,614	43,306,643	46,208,188
Remuneration of councillors	7,057,260	7,057,260	7,743,348	8,180,848	8,655,337
Finance charges	110,500	45,500	56,875	59,719	63,003
Depreciation and assets impairment	-	-	-	-	-
Contracted services	750,00	1,500,000	1,250,000	1,250,000	1,250,000
Transfers and grants	13,000,000	33,965,803	3,809,721	3,410,600	2,896,359
Other expenditure	29,578,209	34,596,798	29,827,648	29,139,435	30,556,138
Repairs and maintenance	1,000,000	1,000,000	1,121,250	1,177,313	1,242,055
Total Expenditure	79,180,050	106,253,988	84,491,456	86,524,558	90,871,080

The budgeted allocation for employee related costs for the 2012/13 financial year totals R48,4 million, which equals 60 per cent of the total operating expenditure. Considering the fact that the three year collective SALGBC agreement has came in to an end during 2011/2012 budget year, salary increases have been factored into this budget at an estimated percentage increase of 6 per cent for the 2012/13 financial year, this was based on the guideline of circular 58 and CPIX plus additional 1 per cent on CPIX. An annual increase of 6.45 and 6.7 per cent has been included in the two outer years of the MTREF.

As part of the Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized and only important and critical position have been budgeted for. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. The outcome of this exercise was the inclusion of R3.9 million in the 2012/13 financial year relating to critical and strategically important vacancies. In addition expenditure against overtime was not budgeted in the prior year including the current and two outer years.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget. Notwithstanding, the above facts the Councillors projected increase has been estimated at 5.5 per cent in the 2012/2013.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has been identified as an area in which cost savings and efficiencies can be achieved. Average growth has been limited to 3 per cent to some item of expenditure for 2012/13 and curbed at 5 and 5.5 per cent for the two outer years, indicating that significant cost savings have been already realised.

The following table gives a breakdown of the main expenditure categories for the 2012/13 financial year.

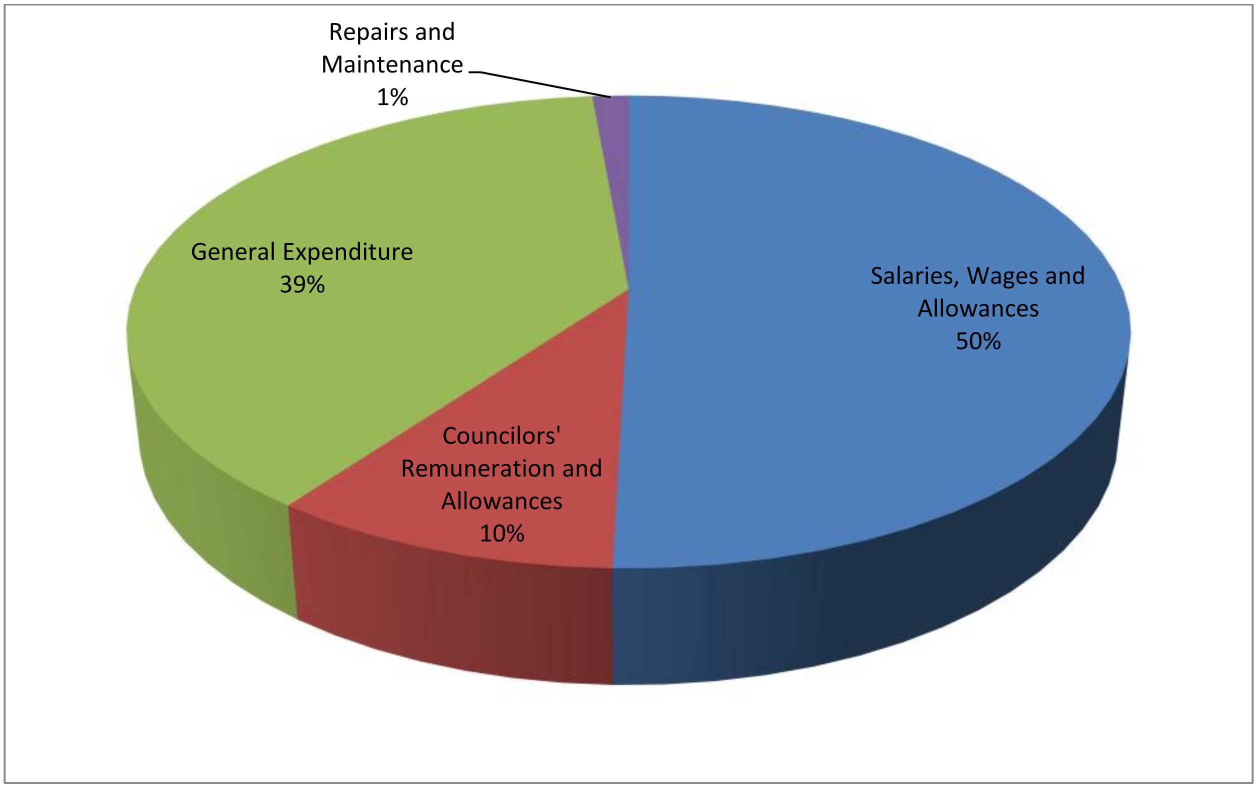

Figure 1 Main operational expenditure categories for the 2012/13 financial year

1.3 Capital expenditure

Table 5 2012/13 Medium-term capital budget per vote

For 2012/13 an amount of R5.3 million has been appropriated for the development of infrastructure and in the outer years this amount totals R5.2 million and R4.8 million respectively for each of the financial years.

Part 2 – Supporting Documentation

Overview of the annual budget process

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

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Executive Mayor.

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

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

Budget Process Overview

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

The Executive Mayor tabled in Council the required the IDP and budget time schedule on August 2011. Key dates applicable to the process were:

- **August 2011** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2012/13 MTREF;
- **November 2011** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2012** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2012** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **January 2012** - Council considers the 2011/12 Mid-year Review and Adjustments Budget;
- **February 2012** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2011/12 MTREF is revised accordingly;
- **March 2012** - Tabling in Council of the draft 2012/13 IDP and 2012/13 MTREF for public consultation;
- **April 2012** – Public consultation;
- **April 2012** - Closing date for written comments;
- **May 2012** – finalisation of the IDP and MTREF 2012/2013, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **May 2012** - Tabling of the 2012/13 IDP and MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

IDP and Service Delivery and Budget Implementation Plan

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

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

The IDP has been taken into a business and financial planning process leading up to the 2012/13 MTREF, based on the approved 2011/12 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2012/13 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2011/12 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

Financial Modelling and Key Planning Drivers

As part of the compilation of the 2012/13 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2012/13 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2011/12 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Investment possibilities
- Improved and sustainable service delivery
- Free State Growth and Development Strategy
- National Planning Commission Diagnostic Report, and the National Development Plan

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 58 and 59 has been taken into consideration in the planning and prioritisation process.

Community Consultation

The draft 2012/13 MTREF as tabled before Council on March 2012 for community consultation was published, and hard copies were made available at customer care offices, municipal notice boards and various libraries.

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

Ward Committees were utilised to facilitate the community consultation process as from April 2011, and included six public briefing sessions. The applicable dates and venues were published in all the local newspaper. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting residents affected including ratepayer associations. Individual sessions were scheduled with organised business to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions, farmers and community-based organisations.

Overview of alignment of annual budget with IDP

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

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

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

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

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

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

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (PGGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Development Plan
- Municipal Turn around Strategy
- Outcome 9
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2011/12 and 2012/13 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 6 IDP Strategic Objectives

	2011/12 Financial Year		**2012/13 MTREF**
1.	The provision of quality basic services and infrastructure	1.	Provision of quality basic services and infrastructure
2.	Acceleration of higher and shared economic growth and development	2.	Economic growth and development that leads to sustainable job creation
3.	Fighting of poverty, building clean, healthy, safe and sustainable communities	3.1	Fight poverty and build clean, healthy, safe and sustainable communities
		3.2	Integrated Social Services for empowered and sustainable communities
4.	Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service	4.	Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5.	Good governance, Financial viability and institutional governance	5.1	Promote sound governance
		5.2	Ensure financial sustainability
		5.3	Optimal institutional transformation to ensure capacity of the Municipality to achieve set objectives

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

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Ms. T P M Lebenya
Acting Municipal Manager