ANNUAL BUDGET OF

RICHMOND MUNICIPALITY

2011/2012 TO 2013/2014

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	General Recognised Accounting Practice
HR	Human Resources
IDP	Integrated Development Strategy
IT	Information Technology
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
LED	Local Economic Development
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MM	Municipal Manager
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
PBO	Public Benefit Organisations
PMS	Performance Management System
PPE	Property Plant and Equipment
SALGA	South African Local Government Association
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayor's Report

Mayors Budget Speech 2011/2012

The Richmond Vision 2015

Through innovation and dedication, the Richmond Municipality will provide its citizens with access to physical, social and economic development opportunities in a safe and secure environment.

In his 2011 state of the nation address, the President signalled government is primarily concerned about the continuing high levels of unemployment and poverty in the country.

To address these concerns, 2011 has been declared a year of job creation. The municipality has therefore focused this budget on job creation.

In drafting the 2011/12 budget and MTREF's the municipality has considered the twelve national outcomes as adopted by cabinet in January 2010 in conjunction with explored opportunities to mainstream labour intensive approaches to delivering services in a financially sustainable environment.

The municipality will focus to maximising its contribution to job creation by;

- Ensuring that capital projects use labour intensive methods wherever appropriate;
- Ensure that service providers use labour intensive approaches;
- Support labour intensive LED projects;
- Implementing intern programmes to provide young people with on the job training wherever possible.

Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with available limited resources. We need to remain focused on the effective delivery of core municipal services through the application of efficient and effective service delivery mechanisms.

1.2 Council Resolutions

On 28 April 2011 the Council of Richmond Municipality met in the Council Chamber to consider the draft annual budget of the municipality for the financial year 2011/12. The Council approved and adopted the following resolutions:

1. The Council of Richmond Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1. The annual budget of the municipality for the financial year 2011/12 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2;
1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3;
1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4; and
1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5.

1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.1. Budgeted Financial Position as contained in Table A6;
1.2.2. Budgeted Cash Flows as contained in Table A7;
1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table A8;
1.2.4. Asset management as contained in Table A9; and
1.2.5. Basic service delivery measurement as contained in Table A10.

2. The Council of Richmond Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2011:

2.1. the tariffs for property rates – as set out in Annexure A1,
2.2 the tariffs for solid waste services – as set out in Annexure A3

3. The Council of Richmond Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2011 the tariffs for other services, as set out in Annexures A1 to A5 respectively.

4. To give proper effect to the municipality"s annual budget, the Council of Richmond Municipality approves:

4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality"s funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

5. That in terms of section 24(2)©(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 are approved.

6. That in terms of section 24(2)©(iv) of the Municipal Finance Management Act, 56 of 2003, the amendments to the integrated development plan as set out in Budget Chapter 17 are approved.

7. That in terms of section 24(2)©(v) of the Municipal Finance Management Act, 56 of 2003, the budget related policies, including any amendments are approved for the budget year 2011/12.

8. That in terms of sections 22(2)(b) of the Municipal Finance Management Act read together with section 23(3) of the Municipal Budget and Reporting Regulations, council approves an application to National Treasury for the roll-over of any unspent balances (if applicable) of the 2010/2011 Financial Management Grant, Municipal Systems Improvement Grant and Municipal Infrastructure Grant (MIG).

(NB: All unspent 2010/2011 funds are committed)

9. Council notes the Service Delivery and Budget Implementation Plan (SDBIP) with the budget for subsequent approval by the mayor.

1.3 Executive Summary

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

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

The Municipality will embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers by implementing the debt collection and credit control policy as well as the implementation of the approved revenue enhancement strategy.

National Treasury"s MFMA Circular No. 51 and 54 were used to guide the compilation of the 2011/12 MTREF.

The main challenges experienced during the compilation of the 2011/12 MTREF can be summarised as follows:

• The ongoing difficulties in the national and local economy;

• Aging and poorly maintained roads and other infrastructure assets;

• The need to reprioritise projects and expenditure within the existing resource envelope given the available sources of funding;

• Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies which makes it difficult to maintain the salaries budget within the acceptable norm as a percentage of the total operating budget; and

• Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year"s capital investments needed to be factored into the budget as part of the 2011/12 MTREF process.

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

• The 2010/11 Adjustments Budget priorities and targets;

• Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

• Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

• There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 Medium-term Revenue and Expenditure Framework:

Consolidated Overview of the 2011/12 MTREF

Consolidated Overview of the 2011/12 MTREF

R thousand	Adjustment Budget 2010/11	Budget Year 2011/12	Budget Year+1 2012/13	Budget Year+2 2013/14
Total Operating Revenue	63 782 179	66 948 870	63 918 535	68 849 547
Total Operating Expenditure	40 794 576	49 145 680	46 145 679	49 114 419
Surplus / (Deficit) for the year	22 987 603	17 803 190	17 772 856	19 735 128
Total Capital Expenditure	26 604 208	21 592 433	19 646 200	20 743 130

Total operating revenue has increased by 5 per cent or R3,166,691 for the 2011/12 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will decrease by 5 and increase by 8 per cent respectively, equating to a total revenue growth of R5.06 million over the MTREF when compared to the 2010/11 financial year.

Total operating expenditure for the 2011/12 financial year has been appropriated at R49.1 million and translates into a budgeted surplus of R17.8 million. When compared to the 2010/11 Adjustments Budget, operational expenditure has grown by 20 per cent in the 2011/12 budget and decreased by 6 and increased 6 per cent for each of the respective outer years of the MTREF. The operating surplus for the two outer years steadily decreases to R17.7 million and increases to R19.7 million respectively. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R 21.5 million for 2011/12 is 19 per cent less when compared to the 2010/11 Adjustment Budget. The reduction is due to various projects being finalised in the previous financial year. The capital programme decreases to R 19.6 million in the 2012/13 financial year and then increases 2013/14 to R20.7 million. A substantial portion of the capital budget will be funded from government grants. The balance will be funded from internally generated funds.

1.4 Operating Revenue Framework

The municipality’s revenue strategy is built around the following key components;

- National Treasury’s guidelines and macroeconomic policy;
- Efficient revenue management which aims to aims to ensure a 80% percent annual collection rate for rates and other service charges;
- The municipality’s Property Rates Policy approved in terms of the Municipal Property rates Act, 2004 (Act 6 of 2004)(MPRA);
- Increase ability to extend new services and recovers costs;
- The municipality’s Indigent Policy and rendering of Free Basic Services;and
- The Tariff Policy of the municipality.

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

Description	**Adjustment Budget 2010/11**	**Budget Year 2011/12**	**Budget Year+1 2012/13**	**Budget Year+2 2013/14**
Property rates	4 800 000	6 000 000	6 360 000	6 741 000
Property rates- penalties and collection charges	300 000	300 000	318 000	337 080
Service charges- refuse revenue	1 050 390	524 880	1 192 723	1 264 286
Rental of facilities and equipment	1 166 205	840 100	890 506	943 936
Interest earned - external investments	1 450 000	1 200 000	1 272 000	1 348 320
Interest earned - outstanding debtors	60 000	51 140	54 208	57 461
Fines	205 000	406 000	430 360	456 182
Licences and permits	1 820 000	2 008 770	2 129 296	2 257 054
Income from agency services	402 600	355 590	376 925	399 541
Government Grants and Subsidies	27 059 981	32 219 004	31 471 000	34 537 000
Other income	2 347 310	5 240 196	3 009 516	3 190 087
TOTAL OPERATING REVENUE(excluding capital transfers and contributions)	40 661 486	49 145 680	47 504 534	51 531 947

Percentage growth in revenue by main revenue source

Description	Adjusted 2010/2011 Budget	%	Budget Year 2011/2012	%
REVNUE BY SOURCE				
Property Rates	4 800 000.00	0.12	6 000 000.00	0.12
Property rates - Interest	300 000.00	0.01	300 000.00	0.01
Service Charges - refuse removal	1 050 390.00	0.03	524 880.00	0.01
Rental of facilities and equipment	1 166 205.00	0.03	840 100.00	0.02
Interest earned - external investments	1 450 000.00	0.04	1 200 000.00	0.02
Interest earned - outstanding debtors	60 000.00	0.00	51 140.00	0.00
Fines	205 000.00	0.01	406 000.00	0.01
Licences and Permits	1 820 000.00	0.04	2 008 770.00	0.04
Income from Agency Services	402 600.00	0.01	355 590.00	0.01
Government Grants and Subsidies	27 059 981.00	0.67	32 219 004.00	0.66
Other Income	2 347 310.00	0.06	5 240 196.00	0.08
Total Revenue (excluding capital transfers and contributions)	**40 661 486.00**	**1.00**	**49 145 680.00**	**1.00**
Total revenue from rates and service charges	6 150 390.00		6 824 880.00	

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.

Revenue generated from rates and service charges forms 15% of the revenue basket of the municipality. Operating grants and transfers totals R 28.2 million.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the municipality. National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. The municipality has provisionally increased rates by 3.5% and all other service charges by 6%.

1.4.1 Property Rates

Property rates contribute towards covering the costs of the provision of general services. National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the MPRA, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the municipality has been amended accordingly. The first R 15 000 of the market value of a property is excluded from the rateable value (Section 17h of the MPRA). In addition to this rebate, a further R 35 000 reduction on the market value of a property will be granted in terms of the municipality's property rates policy.

Comparison of the proposed rates to be levied for the 2011/2102 financial year

Category	Current Tariff (1 July 2010)	Proposed Tariff (from 1 July 2011)	% Increase	Rate Ratio
	c	c		
RESIDENTIAL	0.005500	0.005693	0.035091	1
BUSINESS,COMMERCIAL AND INDUSTRIAL	0.011000	0.011385	0.035000	2
AGRICULTURAL	0.001378	0.001426	0.034833	0.25
STATE OWNED	0.011000	0.011385	0.035000	2
PUBLIC SERVICE INFRASTRUCTURE	0.001378	0.001426	0.034833	0.25
PUBLIC BENEFIT ORGANISATION	0.001378	0.001426	0.034833	0.25
OTHER	0.002862	0.002962	0.034941	0.52

1.4.2 Refuse Removal

Currently waste removal is operating at a defict. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long term.

For the 2010/2011 residential consumers were subsided in full for refuse removal. This reflected as free basic refuse in the operating statement. Commercial users received a 90% rebate which was also reflected in the operating statement.

For the 2011/12 financial year Free Basic Service will only be applicable to indigent consumers as per the Free Basic Services and Indigent Policy. Council has resolved that with the exception of indigents, all other consumers will now be liable to pay the full tariff levied in respect of refuse removal. As a result thereof, a new reduced tariff has been introduced as follows:

Comparison between current refuse removal fees and increases

	CURRENT TARIFFS 2010/11	**PROPOSED TARIFFS 2011/12**	**% INCREASE/ (DECREASE)**
Refuse removal residential once a week	110.94 (per mth)	30.00 (Per Mth)	(73%)
Commercial twice a week	336.20 (per mth)	60.00 (per mth)	(82%)
Commercial five times a week	840.51 (per mth)	150.00 (Per mth)	(82%)

1.4.3 Other income

Included in current income for 2011/12 is a contribution of R 4,905.426 from cash backed accumulated funds from previous years' surpluses not committed for other purposes (S.18 (b) of the MFMA). This is not an ideal situation, however operating expenditure should not exceed operating revenue. The municipality included an amount of R 3 000 0000 for the new valuation as required by the MPRA.

1.5 Operating Expenditure Framework

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

- The asset management plan;
- 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 following table is a high level summary of the 2011/12 budget (classified per main type of operating expenditure);

Description	Adjusted 2010/2011 Budget	%	Budget Year 2011/2012	%
Expenditure by Type				
Employee related costs	17 009 287.00	0.42	20 163 840.00	0.41
Remuneration of Councillors	3 105 930.00	0.08	3 306 670.00	0.07
Collection costs	150 000.00	0.00	150 000.00	0.00
Depreciation	3 884 478.00	0.10	4 694 670.00	0.10
Repairs and maintenance	2 831 950.00	0.07	2 550 710.00	0.05
Contracted services	2 528 628.00	0.06	2 964 760.00	0.06
Grants and subsidies paid	79 980.00	0.00	85 980.00	0.00
General expenses	11 054 322.00	0.27	15 179 050.00	0.31
Contributions to provisions	150 000.00	0.00	50 000.00	0.00
Total Expenditure	**40 794 575.00**	**1.00**	**49 145 680.00**	**1.00**

The budgeted allocation for employee related costs for the 2011/12 financial year totals R 23 million (inclusive of councillors allowances), which equals 48 percent of the total operating expenditure. This is due to the fact that critical positions were filled in 2010/2011, the implementation of the finalised municipal wage curve (task system representing equal pay for equal work at all municipalities in South Africa) and budgeting for applicable annual notch increases. Salary increases have been factored into this budget at a percentage increase of 7.5 percent for the 2011/12 financial year. An annual increase of 6 percent has been included in the two outer years of the MTREF. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

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). An 8% increase has been factored into the budget for the 2011/12 financial year.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption.
Budget appropriations in this regard total R4,6 million for the 2011/12 financial year and equates to 10% of the total operating expenditure.

In the 2011/12 financial year, contracted services totals R2,9 million and has escalated by 17%. This is due in the main to annual increases by service providers as well as the introduction of operational costs arising from previous year's infrastructure projects.

General expenditure comprises 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. General expenditure totals R15,1 million in the 2011/12 financial year and has increased by 37%.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure per vote:

Medium-term capital budget per vote

Vote	Adjustment Budget 2010/11	Budget Year 2011/12	Budget Year+1 2012/13	Budget Year+2 2013/14
Executive and Council	421 000	30 000	31 800	33 708
Finance and Administration	261 250	243 500	258 110	273 597
Planning and Development	318 600	418 200	443 292	469 890
Community & Social Services	6 607 610	1 016 800	1 077 808	1 142 476
Public Safety	43 520	201 000	213 060	225 844
Sport & Recreation	2 051 720	4 680 000	4 693 882	1 795 513
Waste Management	1 108 613	281 743	298 648	316 566
Road Transport	15 791 895	14 721 190	13 414 000	17 317 000
Total Capital Budget	26 604 208	21 592 433	20 430 600	21 574 594

For 2011/12 an amount of R17,8 million has been appropriated for the development of infrastructure which represents 82.8% of the total capital budget. Roads receives the highest allocation of R14,721 million.

1.7 Annual Budget Tables - Parent Municipality

The following pages present the main budget as required:

Table A1 – Table A 10

Part 2 – Supporting Documentation

2.1 Overview of the annual budget process

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

The Budget Steering Committee consists of the Mayor, Members of the Executive Committee, Municipal Manager and senior officials of the municipality. The primary aims of the Budget Steering Committee is to ensure:-

-that the process followed to compile the budget complies with legislation and good budget practices;

-that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;

-that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and

-that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Overview

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

The Mayor tabled in Council the required budget time schedule on 25 August 2010.

Further to the above and in terms of MFMA Circular No.54 an amended budget process plan was also tabled in Council in February 2011.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

This is the fifth review of the IDP as adopted by Council in 2006/07. It started in September 2010 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2011/12 MTREF in August.

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 IDP has been taken into a business and financial planning process leading up to the 2011/12 MTREF, based on the approved 2010/11 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.
With the compilation of the 2011/12 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year performance against the 2010/11 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

2.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2011/12 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 2011/12 MTREF:

• Policy priorities and strategic objectives

• Asset maintenance

• Economic climate and trends (i.e inflation, household debt, migration patterns)

• Performance trends

• The approved 2010/11 adjustments budget and performance against the SDBIP

• Cash Flow Management Strategy

• Debtor payment levels

• The need for tariff increases versus the ability of the community to pay for services;

• Improved and sustainable service delivery

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

2.1.4 Community Consultation

Once the draft budget was approved by council the following community consultation process began:-

- The draft 2011/12 MTREF was published on the municipality's website;
- Hard copies were made available at all municipal offices and libraries;
- Notices were placed on municipal notice boards and various libraries;
- In addition the budget was taken out to all wards by the process of Budget and IDP Imbizo's on the 7 April 2011. The applicable dates and venues were published in the Natal Witness and Ilanga.
- Attached hereto the minutes of the Imbizo as held on 7th April 2011.

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

2.2 Overview of alignment of annual budget with IDP

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

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

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

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

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

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

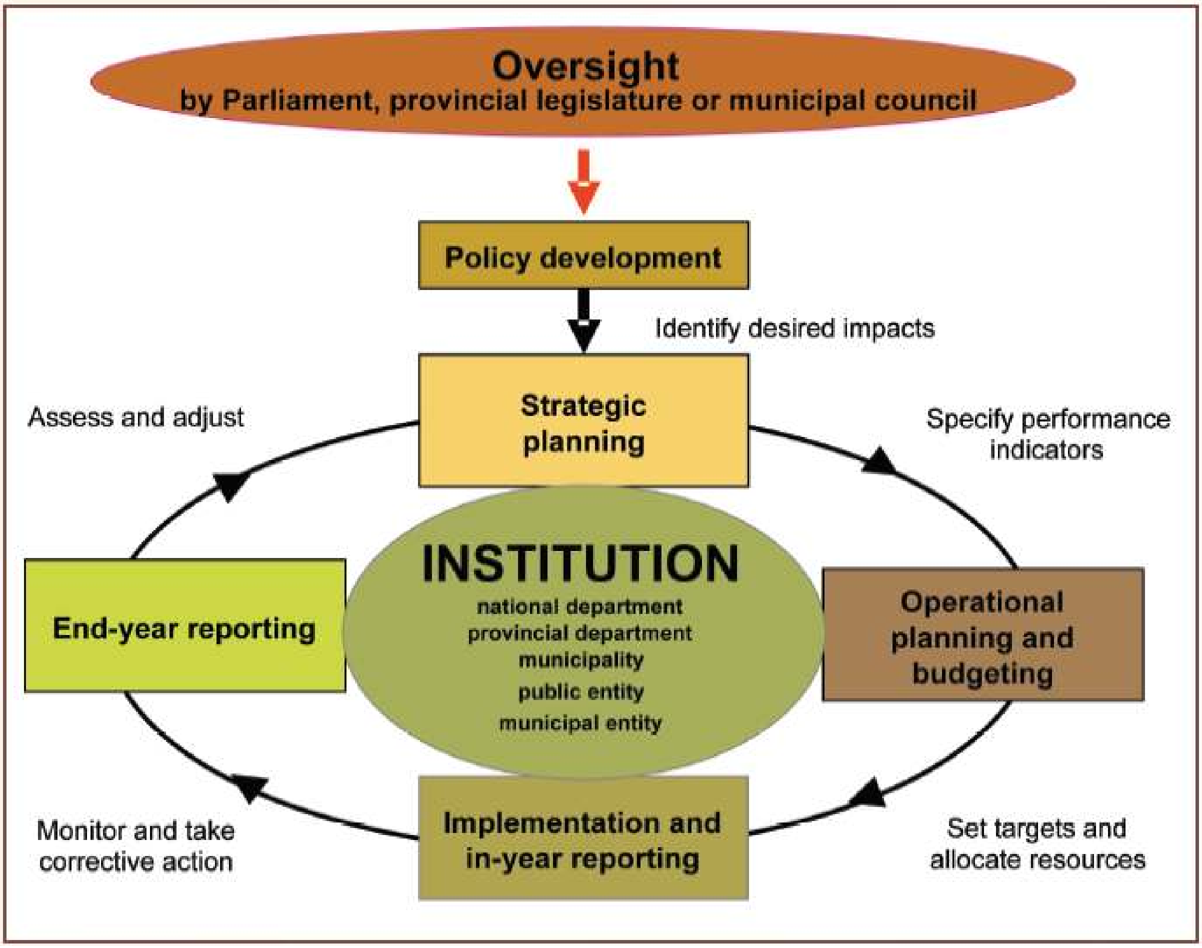
The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP.

2.3 Measurable performance objectives and indicators

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

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

The planning, budgeting and reporting cycle can be graphically illustrated as follows:



Planning, budgeting and reporting cycle

2.3.1 Performance indicators and benchmarks

2.3.1.1 Liquidity

• Current ratio is a measure of the current assets divided by the current liabilities and as a benchmark the municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. Going forward it will be necessary to maintain these levels.

• The liquidity ratio is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations.

2.3.1.2 Revenue Management

• As part of the financial sustainability strategy, the debt collection and credit control policy has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days.

2.3.1.3 Creditors Management

• The municipality has managed to ensure that creditors are settled within the legislated 30 days of invoice. The municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favourable impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to benefit the municipality in the form of more competitive pricing of tenders, as suppliers compete for the municipality's business.

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

In terms of the municipality's Indigent and Free Basic Services Policy registered households are entitled to 50kwh of electricity and free waste removal equivalent to once a week as well as a rebate on their property rates.

2.4 Overview of budget related-policies

NO.	POLICY	DEPT.	AVAILABILI TY	ADOPTION DATE	
2.4.1	Debt Collection and Credit Control Policy	Budget & Treasury Office	Y		14/12/2010
2.4.2	Property Rates Act Policy	Budget & Treasury Office	Y	Amended	14/12/2010
2.4.3	Revenue enhancement Policy	Budget & Treasury Office	Y		14/12/2010
2.4.4	Municipal property rates policy	Budget & Treasury Office	Y		14/12/2010
2.4.5	Borrowing Plicy	Budget & Treasury Office	Y		14/12/2010
2.4.6	Long Term Fiacial Plan Policy	Budget & Treasury Office	Y		14/12/2010
2.4.7	Supply Chain Management policy	Budget & Treasury Office	Y		14/12/2010
2.4.8	Asset management policy	Budget & Treasury Office	Y		14/12/2010
2.4.9	Indigent policy and Free Basic Services Policy	Budget & Treasury Office	Y	Amended – attached	14/12/2010
2.4.10	Cash Management and Investment Policy	Budget & Treasury Office	Y		14/12/2010
2.4.11	Budget Policy	Budget & Treasury Office	Y		14/12/2010
2.4.12	Infrastructure and Capital Investment policy	Budget & Treasury Office	Y		14/12/2010
2.4.13	Funds and Reserves Policy	Budget & Treasury Office	Y		14/12/2010
2.4.14	Tariff Policy	Budget & Treasury Office	Y		14/12/2010
2.4.15	Virement Policy	Budget & Treasury Office	Y		14/12/2010

2.5 Overview of budget assumptions

Owing to the economic slowdown, there are reduced payment levels by consumers. This is being addressed by the implementation of the debt collection and credit control policy.

The following factors have been taken into consideration in the compilation of the 2011/12 MTREF

- National Government macro economic targets';
- The general inflationary outlook;
- The increase in the cost of remuneration;
- The increase in the cost of services by service providers;
- Annual increases in contracted services.

2.6 Overview of budget funding

- As per attached table SA 10

2.6.1 Medium-term outlook: operating revenue

- As per attached table SA 25

2.6.2 Medium term outlook: capital revenue

- As per attached table SA 25

2.6.3 Cash Flow Management

- As per attached table/s SA 25 to SA 30

2.6.4 Cash backed reserves/accumulated surplus reconciliation

- As per table A 8

2.6.5 Funding Compliance Measurement

- As per attached table SA 10

2.7 Expenditure on grants and reconciliations of unspent funds

- As per attached table SA 19

2.8 Councillor and employee benefits

- As per attached table SA 22

2.9 Monthly targets for revenue, expenditure and cash flow

- As per attached table/s SA 25 – SA 30

2.10 Annual budgets and SDBIPs – internal departments

- As per attached Annexure C

2.11 Contracts having future budgetary implications

In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years - 36 months).

2.12 Capital expenditure details

- As per attached table SA 36

2.13 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) is undertaken on a monthly basis.

2. Internship programme

The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Budget and Treasury Office. Two interns have had their two year contracts extended for one year and the remaining three will complete their two year contracts at the end of December 2011. Since the introduction of the Internship programme the municipality has successfully employed and trained 7 interns through this programme.

3. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

A draft SDBIP for 2011/2012 is attached hereto. The final will be completed and signed by the Mayor within 14 days of approval of the budget.

6. Annual Report

Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training

The MFMA training module is available in electronic format.

8. Policies

All financial policies are reviewed and adopted annually as part of the budget process.

2.14 Other supporting documents

- As per attached tables

2.15 Municipal manager's quality certificate

I Mr E S Sithole, Municipal manager of Richmond Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Mr E S Sithole

Municipal manager of **RICHMOND MUNICIPALITY (KZ227)**

Signature ____

Date ____________________________