

ANNUAL BUDGET OF  
**SETSOTO LOCAL  
MUNICIPALITY**



2013/14 TO 2015/16  
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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## Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
MM	Municipal Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act

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MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

## **PART 1: Annual Budget**

### **1.1 Mayor's Report**

(refer to the attachment)

### **1.2 Council Resolutions**

The Council of Setsoto Local Municipality met in the Council Chambers of Setsoto Municipality to consider the annual budget of the municipality for the financial year 2013/14. The Council approved and adopted the following resolutions:

1. The Council of Setsoto Local 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 2013/14 and the multi-year and single-year capital appropriations as set out as follows:
  - 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 below:
2. The Council of Setsoto Local 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 2013:
  - 2.1. the tariffs for property rates – as set out in 2.6,
  - 2.2. the tariffs for electricity– as set out in 2.6
  - 2.3. the tariffs for the supply of water – as set out in 2.6
  - 2.4. the tariffs for sanitation services – as set out in 2.6
  - 2.5. the tariffs for solid waste services – as set out in 2.6
3. The Council of Setsoto Local 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 2013 the tariffs for other services, as set out in paragraph 2.6 respectively.

## 1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality 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 business and service delivery priorities were reviewed as part of this year's planning and budget process. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, accommodation, and catering.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 66 and 67 were used to guide the compilation of the 2013/14 MTREF.

The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- 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 2013/14 MTREF process; and

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The 2012/13 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 2013/14 annual budget;
- Intermediate service level standards were used to inform the measurable objectives.

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- Tariff and property rate increases should be affordable, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of providing water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2013/14 Medium-term Revenue and Expenditure Framework:

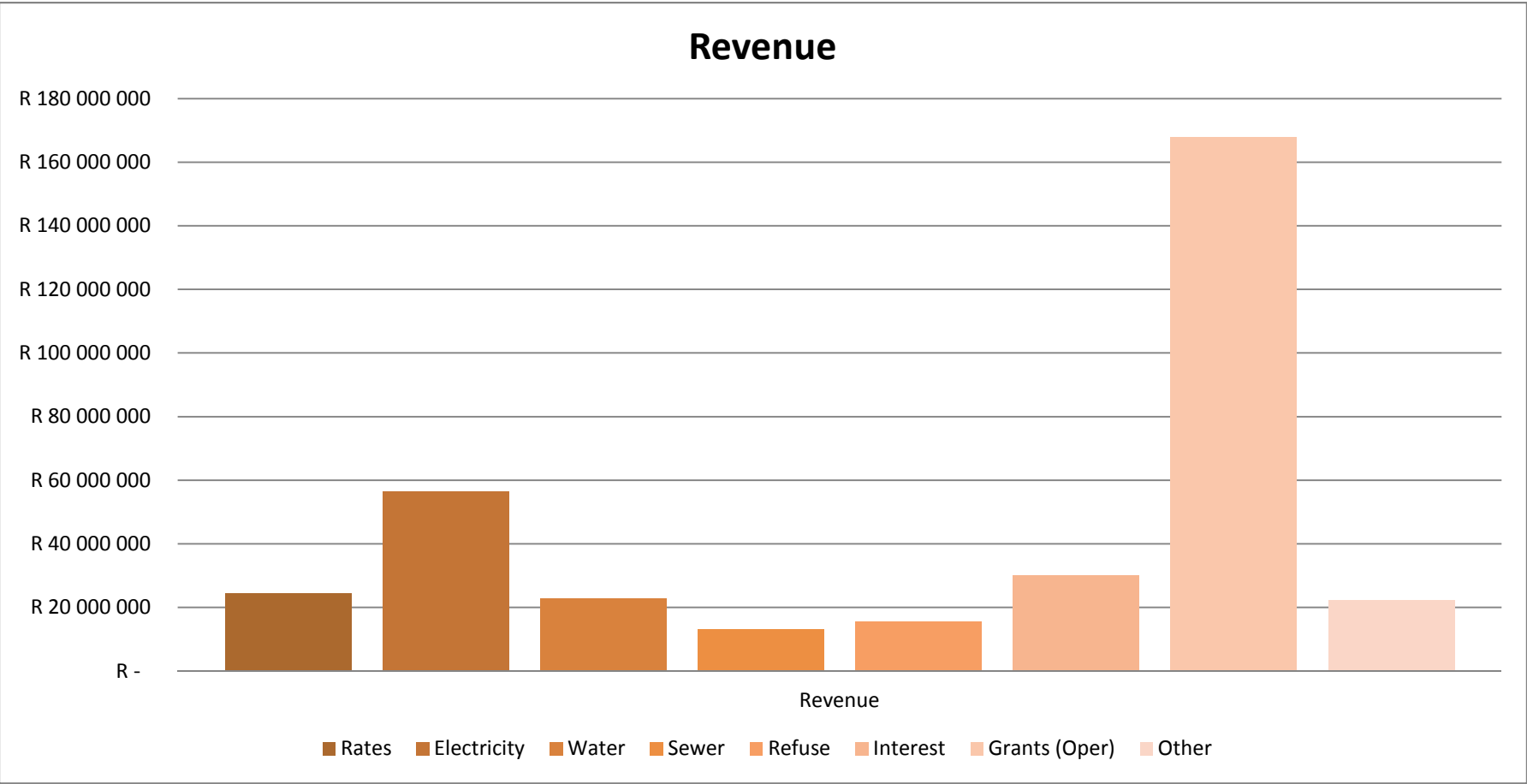
### **1.4 Summary of Operating Revenue and Expenditure**

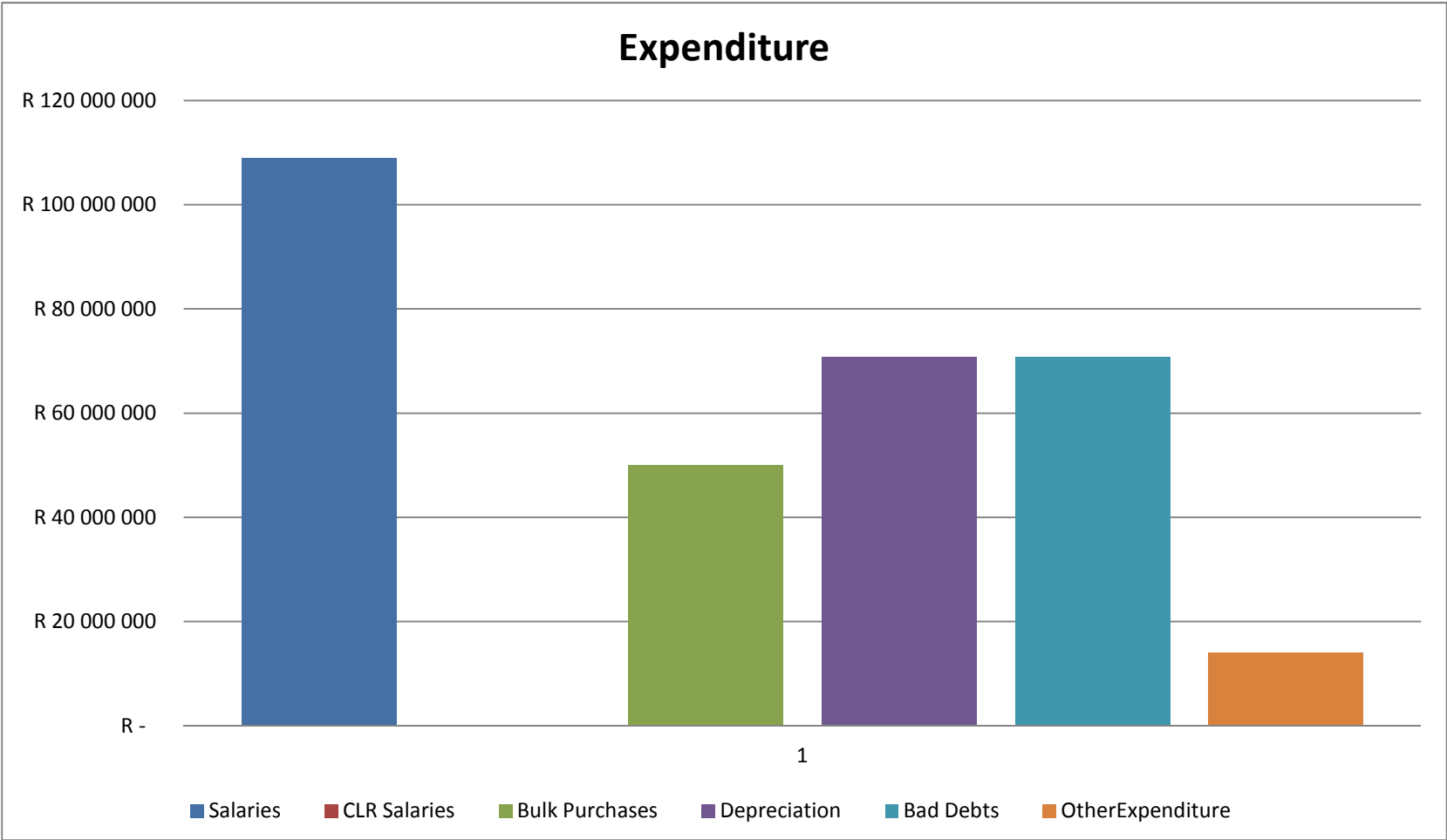
#### **Table 1 – Summary of Operating Revenue and Expenditure**

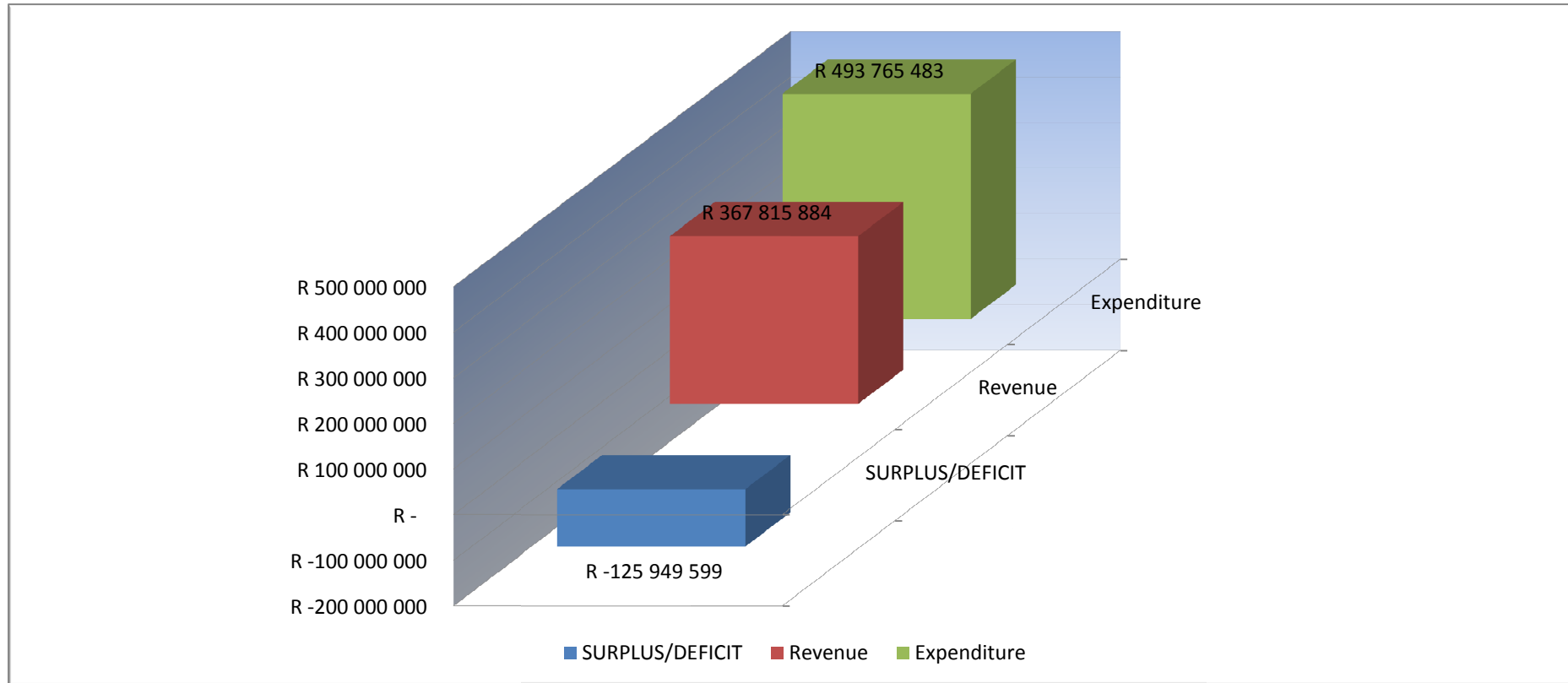
**(Refer to table A1 – Budget summary)**

Total operating revenue has grown by 1.79 per cent for the 2013/14 financial year when compared to the 2012/13 Adjustments Budget. For the two outer years, operational revenue will increase by 5 and 5 per cent respectively.

Total operating expenditure for the 2013/14 financial year has grown by 3.1 per cent and translates into a budgeted deficit of R122 million. These deficits will be appropriated against the accumulated surplus.







## 1.5 Operating Revenue Framework

For Setsoto Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

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

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 80 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the City.

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

### **1.6 Summary of Operating Revenue by source**

#### **Table 2 – Summary of Operating Revenue by source**

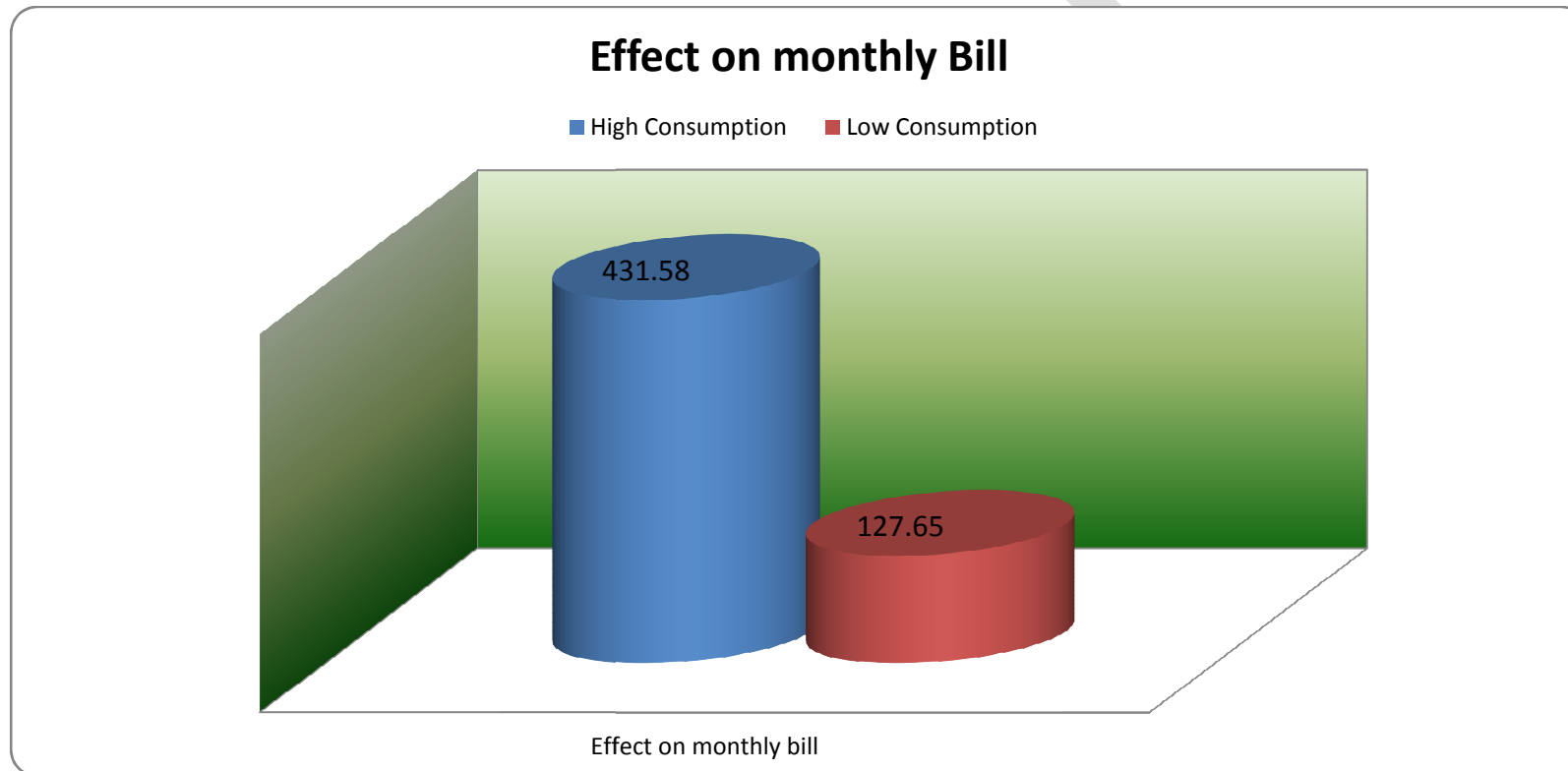
**(Refer to table A1 – Budget summary)**

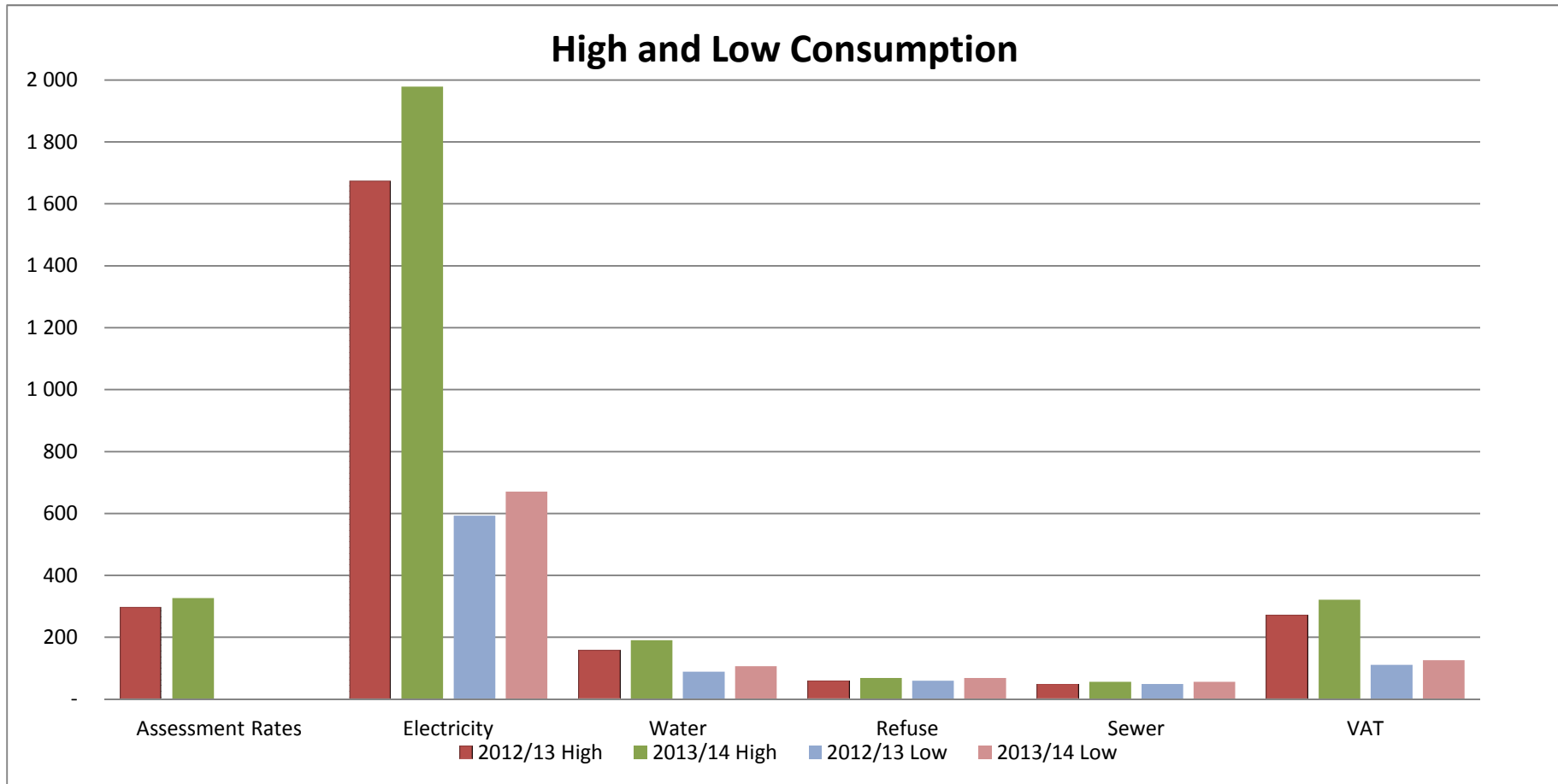
In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues for the financial year 2013/14 comprise 39.72 per cent of the total revenue mix. In the 2012/13 financial year, revenue from rates and services charges totalled R138 million or 38.1 per cent. A notable trend is the increase in the total percentage revenue generated from rates and services charges which increases from 38.1 per cent in 2012/13 to 39.72 per cent in 2013/14. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Operating grants and transfers totals R175 million in the 2012/13 financial year and decreases to R172 million by 2013/14.

The net effect on the monthly consumer accounts are illustrated below. The increase derives from an average tariff increase on the following services (Electricity 7%, Water 20%, Refuse 15%, Sewer 15% and Assessment rates 10%)





### 1.6.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly. The decrease in the rates rebate percentage from 93.9 % (2012/13) to 93.3 % (2013/14) will result in an average of 10% increase on the consumer's account.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).

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

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

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

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

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A tariff increase of 20 per cent from 1 July 2013 for water is proposed. In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

### 1.7 Proposed Water Tariffs

**Table 3 Proposed Water Tariffs**

CATEGORY	CURRENT TARIFFS 2012/13	PROPOSED TARIFFS 2013/14
	Rand per kℓ	Rand per kℓ
<b>RESIDENTIAL</b>		
(i) Basic Charge (Domestic)	61.58	73.90
(ii) 0 kℓ - 6 kℓ (Non-Domestic users only)	2.28	2.74
(iii) 6,1 kℓ – 10 kℓ	2.89	3.47
(iv) 10,1 kℓ – 20 kℓ	3.16	3.79
(v) 20,1 kℓ - 30 kℓ	3.51	4.21
(vi) 30,1 kℓ >	3.77	4.52

The following table shows the impact of the proposed increases in water tariffs on the water charges for a single dwelling-house:

### 1.8 Comparison between current water changes and increases (Domestic)

**Table 4 Comparison between current water charges and increases (Domestic)**

Monthly consumption kℓ	Current amount payable R	Proposed amount payable R	Difference (Increase) R	Percentage change
20	104.71	125.65	20.94	20%
30	139.82	167.78	27.96	20%
40	177.52	213.02	35.50	20%
50	215.22	258.26	43.04	20%
80	328.32	393.98	65.66	20%
100	403.72	484.46	80.74	20%

**1.8.1 Sale of Electricity and Impact of Tariff Increases**

NERSA has announced the revised bulk electricity pricing structure. A, 7 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2013.

Considering the Eskom increases, the consumer tariff had to be increased by 7 per cent to offset the additional bulk purchase cost from 1 July 2013. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality’s revenue from electricity.

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

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

**Table 5 Comparison between current electricity charges and increases (Domestic)**

Monthly consumption kWh	Current amount payable R	Proposed amount payable R	Difference (Increase) R	Percentage change
100	275.92	295.23	19.31	7%
250	383.81	410.67	26.86	7%
500	592.58	634.06	41.40	7%
750	846.97	906.26	59.29	7%
1 000	1118.90	1197.22	78.32	7%
2 000	2206.62	2361.08	154.46	7%

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

**1.8.2 Sanitation and Impact of Tariff Increases**

A tariff increase of 15 per cent for sanitation from 1 July 2013 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes largely to the waste water treatment input costs, therefore the higher than CPI increase of 15 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Free sanitation will be applicable to registered indigents; and

The following table compares the current and proposed tariffs:

**Table 6 Comparison between current sanitation charges and increases**

CATEGORY	CURRENT TARIFF 2012/13		PROPOSED TARIFF 2013/14	
	TARIFF		TARIFF	
		R		R
Domestic		49.39		56.80
Business		72.06		82.87

The following table shows the impact of the proposed increases in sanitation tariffs on the sanitation charges for a single dwelling-house:

**1.8.3 Waste Removal and Impact of Tariff Increases**

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

A 15 per cent increase in the waste removal tariff is proposed from 1 July 2013.

**1.9 Comparison between current refuse changes and increases**

**Table 7 Comparison between current refuse charges and increases**

CATEGORY	CURRENT TARIFF 2012/13		PROPOSED TARIFF 2013/14	
	TARIFF		TARIFF	
		R		R
Domestic – Town		60.04		69.05
Domestic – Township		49.39		56.80
Business		125.44		144.26

**1.10 Summary of operating expenditure by standard classification item**

**Table 8 Summary of operating expenditure by standard classification item**

**(Refer to table A2 – Budget summary)**

The budgeted allocation for employee related costs for the 2013/14 financial year totals R123 million, which equals 37.5 per cent of the total cash funded operating expenditure. (Debt impairment and Depreciation excluded from total expenditure)

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 budget.

The provision of debt impairment was determined based on an annual collection rate of 80 per cent and the Debt Write-off Policy of the Municipality. For the 2012/13 financial year this amount equates to R71 million and declined to R53 million by 2013/14. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality’s realistically anticipated revenues.

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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 R165 million for the 2013/14 financial and equates to 33 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

Bulk purchases are directly informed by the purchase of electricity from Eskom

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

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality Indigent Policy. The target is to register 11 000 or more indigent households during the 2013/14 financial year, a process reviewed annually.

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

### 1.11 Capital expenditure

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

**Table 9 – Summary of Capital Expenditure per Department**

DEPARTMENT		Original Budget 2012/13	Adjustment Budget 2012/13	Draft Budget 2013/14
BUDGET & TREASURY	FINANCIAL SYSTEM	-	225 000	2 100 000
CORPORATE SERVICES	FURNITURE AND EQUIPMENT			1 000 000
SPORT AND RECREATION	FURNITURE AND EQUIPMENT			1 000 000
WASTE MANAGEMENT	FURNITURE AND EQUIPMENT	-	700 101	1 000 000
ROADS DEPARTMENT	VEHICLES AND EQUIPMENT	-	701 099	1 000 000
ELECTRICITY DEPARTMENT	VEHICLES AND EQUIPMENT	-	505 842	1 000 000
WATER DEPARTMENT	VEHICLES AND EQUIPMENT	-		2 500 000
RBIG	WATER	10 000 000	10 000 000	20 000 000
ACIP	SEWERAGE	3750 000	4 750 000	10 840 000
MIG	MIG INFRASTRUCTURE	78 757 000	77 157 000	70 509 000
<b>TOTAL</b>		<b>92 507 000</b>	<b>94 090 423</b>	<b>110 949 000</b>

### 1.12 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 Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the Municipality website.
2. Internship programme

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The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Since the introduction of the Internship programme the Municipality has successfully employed and trained 7 interns through this programme and a majority of them were appointed either in the Municipality or other Institutions such as KPMG, Ernest & Young, SARS, Auditor General, National Treasury.

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**  
The detail SDBIP document is at a draft stage and will be finalised after approval of the 2013/14 MTREF in May 2013 directly aligned and informed by the 2013/14 MTREF.
6. **Annual Report**  
Annual report is compiled in terms of the MFMA and National Treasury requirements.
7. **MFMA Training**  
The MFMA training module in electronic format is presented at the Municipality internal centre and training is ongoing.
8. **Policies**  
An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

### **1.13 Funding credibility on cash flow**

The following table illustrate that based on the collection rate of service charges the budget are cash funded. Although the budgeted deficit is reflected, it is attributed mainly as a result of the revaluation of infrastructure assets and the depreciation on the said assets. The Municipality had an unfunded surplus to the amount of R 2 billion due to the revaluation. The deficit will be appropriated against this unfunded surplus.

**Table 10 – Summary of Operating Revenue and Expenditure cash flow**

**(Refer to table A7 – Budgeted Cash Flows)**

**1.14 Municipal manager’s quality certificate**

I S T R Ramakarane, municipal manager of Setsoto Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name    \_ S T R RAMAKARANE \_\_\_\_\_

Municipal manager of Setsoto Municipality (FS191)

Signature     \_\_\_\_\_

Date            \_\_\_\_\_

## **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 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 the budget key timelines before Council meeting outlining the key activities to be undertaken with strict timeliness. There was however necessary deviations from the key dates set out in the Budget Time Schedule tabled in Council due to the non-availability of key personnel.

The municipality tabled the Budget for 2013/2014 in Council on 30 March 2013. All relevant documents as tabled in Council were placed on the municipality's website and municipal offices for community consultation. All documents in the appropriate format were provided to National Treasury and the Provincial Treasury for inputs and recommendations.

Community Participation was conducted from 06 to 10 May 2013 in all four towns of Setsoto municipality. Inputs received during public participation focused on Service Delivery issues and backlogs.

When finalising the budget the municipality took into account inputs received from Treasury Departments and the community.

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

An IDP is the 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 Process Plan was compiled and tabled before Council

The IDP has taken into financial planning process based on the approved 2013/14 MTREF, Mid-year Review and adjustments budget.

With the compilation of the 2013/14 MTREF, each department/function had to review their activities, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2012/13 Departmental Service Delivery and Budget Implementation Plan.

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

The municipal budget related policies was reviewed as part of community inputs and the final reviewed policies are attached.

### **2.4 TABLE – Summary per Directorate**

(Refer to table SA2 – Budgeted Revenue and Expenditure)

### **2.5 TABLE – Summary per Sub-Vote**

Table 12 Summary per Sub-vote

(Refer to table A4 – Budgeted Revenue and Expenditure)

### **2.6 TARIFFS 2013/14**

(Refer to Tariff list attached)