

CHAPTER 8:

FINANCIAL PLAN AND SDBIP

8.1 INTRODUCTION

Mthonjaneni Municipality's main mission is to provide the community it serves with the level best service possible. To achieve that the municipality requires the best financial management that will result in an increase in revenue.

8.2 FINANCIAL MANAGEMENT POLICIES

8.2.1 GENERAL FINANCIAL PHILOSOPHY

The financial policy of the Mthonjaneni Municipality is to provide a sound financial base and the resources necessary to sustain a satisfactory level of municipal services for the citizens of Mthonjaneni.

It is the goal of the municipality to achieve a strong financial position with the ability to:

- Withstand local and regional economic impacts;
- Adjust efficiency to the community's changing service requirements;
- Effectively maintain, improve and expand the municipality's infrastructure;
- Manage the municipality's budget and cash flow to the maximum benefit of the community.
- Plan, coordinate and implement responsible and sustainable community development and growth.
- Provide a high level of protective services to assure public health and safety.

Municipality financial policies will address the following goals:

- To keep the municipality in a fiscally sound position in both the long and short term,
- Maintain sufficient financial liquidity through regular reviews and adjustments to meet normal operating contingent obligations,
- Apply credit control policies which maximize collection while providing relief for the indigent,
- Credit Control policies that recognize with basic policy of customer care and convenience,
- Maintaining existing infrastructure and capital assets.

8.3 5 YEAR FINANCIAL PLAN

8.3.1 Introduction

In general usage a financial plan is a budget, in other words a plan for spending and saving future income. This plan allocates future income to various types of expenses, such as salaries, insurances and also reserves some income for short term and long term savings. A financial plan is also an investment plan, which allocates savings to various assets or projects expected to produce future income.

One of the key issues identified for the sustainability of Matatiele Local Municipality is expanding its revenue base whilst remaining financially viable and sustainable. The objectives are therefore to provide effective, efficient and co-ordinated financial management and financial accounting.

8.3.2 Capital & Operating Budget

The five-year financial plan includes an Operating Budget and Capital Investment Programme for the five years ending June 2013.

a) Budget Assumptions

The selected key assumptions related to this budget are as follows:

- Matatiele Local Municipality will continue with its current powers and functions;
- The Budget is based on current service levels and does not make provision for major expansion of services into the rural areas;
- Government grants for the years 2008/2009 to 2010/2011 are as per the Division of Revenue Act;
- The inflation rate has been estimated at 8,5% per annum;
- Growth in staff related costs has been provided for in the budget at 8,3% per annum, growth in the remaining expense items range from 0% to 10%;
- Provision has been made for tariff increases relating to services at an average rate of 10% per annum;
- No provision was made in relation to the Provision for Leave as staff will be encouraged to redeem their leave.

b) Operating Budget

Table F1 details the Operating Budget for the five years starting 1 July 2008 and ending 30 June 2013

Table F1 Operating Budget

	2008/2009 BUDGET	2009/2010 BUDGET	2010/2011 BUDGET	2011/2012 BUDGET	2012/2013 BUDGET
Property Rates	15,221,804	16,515,657	17,919,488	19,442,645	21,095,270
Property Rates – Penalties Imposed	1,650,000	1,790,250	1,942,421	2,107,527	2,286,667
Service Charges	20,991,915	22,776,228	24,712,207	26,812,745	29,091,828
Rentals of facilities and equipment	330,473	358,563	389,041	422,110	457,989
Interest earned – external investments	3,600,000	3,906,000	4,238,010	4,598,241	4,989,091
Interest earned – outstanding debtors	92,736	100,619	109,171	118,451	128,519
Fines	108,000	117,180	127,140	137,947	149,673
Licenses and permits	1,184,725	1,285,427	1,394,688	1,513,236	1,641,861
Government grants & subsidies	59,602,603	52,790,000	65,186,000	70,726,810	76,738,589
Capital Grants	57,313,177	62,184,797	67,470,505	73,205,498	79,427,965
Other	837,590	908,785	986,032	1,069,845	1,160,781
TOTAL OPERATING INCOME	160,933,023	162,733,506	184,474,704	200,155,053	217,168,233
Employee related costs	30,829,016	33,449,482	36,292,688	39,377,567	42,724,660
Remuneration of Councilors	11,665,811	12,657,405	13,733,284	14,900,614	16,167,166
Depreciation	10,548,282	11,444,886	12,417,701	13,473,206	14,618,428
Repairs and maintenance	4,119,200	4,469,332	4,849,225	5,261,409	5,708,629
Bulk purchases – Electricity	8,850,000	9,602,250	10,418,441	11,304,009	12,264,850
Contracted Services	8,453,080	9,171,592	9,951,177	10,797,027	11,714,774
Grants and subsidies paid	16,267,844	17,650,611	19,150,913	20,778,740	22,544,933
General Expenses	18,923,297	20,531,777	22,276,978	24,170,521	26,225,016
Sub-Total	109,656,530	118,977,335	129,090,409	140,063,093	151,968,456
Capital Grants	57,313,177	50,305,975	62,490,833	67,802,554	73,565,771
Depreciation on Capital funded from Grants	-6,067,420	6,583,151	7,142,719	7,749,850	8,408,587
Surplus	30,734	33,346	36,181	39,256	42,593
TOTAL OPERATING EXPENDITURE	160,933,021	162,733,506	184,474,704	200,155,054	217,168,233

c) Capital Budget

Table F2 details the estimated Capital Investment Programme for the five years starting 1 July 2008 and ending 30 June 2013. The Capital Investment Programme remains subject to the availability of funding.

Table F2 Capital Investment Programme

SOURCE	2008/2009 BUDGET R Millions	2009/2010 BUDGET R Millions	2010/2011 BUDGET R Millions	2011/2012 BUDGET R Millions	2012/2013 BUDGET R Millions
Own Funds					
Capital Replacement Reserve (CRR)	2	3	2	2	2
Loans					
External Financing Funding	20	0	15	0	0
Specified Grant Funds					
Department of Minerals and Energy	3	5	5	5	5
Local Government Housing	22	0	30	0	40
Municipal Infrastructure Grant	18	22	18	20	30
Neighbourhood Development Partnership Grant	0	1	50	30	20
TOTAL	43	37	103	55	95
TOTAL ALL FUNDING SOURCES	65	40	120	57	97

d) Debt Management Framework

Table F3 table details the Debt Management Framework. Loans will only be raised to fund the Capital Investment Programme. In terms of the Budget Policy debt servicing costs will not exceed 15% of the total operating expenses.

Table F3 Debt Management Framework

	2008/2009	2009/2010	2010/2011	2011/2012
Opening Balance	1,155,160	20,655,160	18,589,160	29,694,160
Additional Loans DBSA	20,000,000	0	15,000,000	0
Less Capital repayments for the year	500,000	2,066,000	3,895,000	4,454,125
Closing Balance	20,655,160	18,589,160	29,694,160	25,240,035

8.3.3 Financial Strategy

Matatiele Local Municipality is a developing municipality located in the rural areas of the Province of the Eastern Cape. Only 13% of its population is economically active which poses specific challenges regarding financial sustainability. Council operations must be conducted in a manner that will ensure that services will remain affordable and yet tariffs must be able to cover costs.

a) Revenue Raising Strategy

The following are some of the more significant programmes that have been identified:

- **The review and implementation of a Credit Control & Debt Collection Policy.** This policy and the relevant procedures detail all areas of credit control, collection of amounts billed to customers, procedures for non-payment etc.
- **The review and implementation of an Indigent Policy.** This policy defines the qualification criteria of an indigent, the level of free basic services enjoyed by indigent households, penalties for abuse etc.

- **The development and implementation of a Tariff Policy.** This policy will ensure that fair tariffs are charged in a uniform manner throughout the Matatiele Local Municipality area.
- **The development and implementation of a Property Rates and Valuation Policy.** This will ensure that a fair rates policy and an updated valuation roll is applied to the entire Matatiele Local Municipality area and will aim to ensure that all properties are included in the municipality's records. Furthermore the policy will ensure that valuations are systematically carried out on a regular bases for all properties.
- **The development and implementation of a Customer Incentive Scheme.** This scheme will detail the incentives and prizes that will be made available to encourage customers to pay their accounts promptly.
- **The review and implementation of an Improved Payment Strategy.** This strategy aims at implementing innovative cost effective processes to encourage consumers to pay their accounts in full on time each month, including increasing the methods of payment and implementing on-line pre-payment systems.

b) Asset Management Strategy

The following are some of the more significant programmes that have been identified:

- **The implementation of an integrated asset management system.** This programme will involve the investigation, identification and implementation of a suitable integrated asset management system. It will also include the capture of all assets onto this system, the maintenance of this system and the production of a complete asset register in terms of GAMAP/GRAP/GAAP requirements.
- **The implementation of the fixed asset infrastructure roadmap i.e. action plan.** This plan will involve a status quo assessment of current infrastructure assets, the implementation of individual action plans within the roadmap and the development of individual infrastructure asset registers. This project is contingent on various departments maintaining their respective infrastructure asset registers and supplying all the necessary information to the Asset Management Section to enable the necessary infrastructure asset information to be included in the asset register in terms of GAMAP/GRAP/GAAP requirements.
- **The review and update of asset and risk insurance procedures and the renewal of the insurance portfolio.** This programme will involve the identification of risks in conjunction with insurers and all Directorates and the review and update of the asset and risk insurance procedure manual. It will also include the review of the existing insurance portfolio and the renewal of the insurance policy as per the renewal terms.

c) Capital Financing Strategy

The following are some of the more significant programmes that have been identified:

- **The development and implementation of a debt capacity policy.** This policy will ensure that any borrowings taken by the Matatiele Local Municipality will be done in a responsible manner and that the repayment and servicing of such debt will be affordable.

- **The development and implementation of a policy for access finance (including donor finance).** This policy will ensure that all available funding sources are vigorously pursued.

8.3.4 Financial Management Policies

a) General Financial Philosophy

The financial policy of the Matatiele Local Municipality is to provide sound, secure and fraud free management of financial services.

The Budget and Treasury Office has the following objectives:

- Implementation of MFMA
- Implementation of the Property Rates Act
- Management of the Budget Process
- Performance of the Treasury Function
- Management of Municipal Revenue
- Establishment of a Supply Chain Management Unit
- Maintenance of Internal Financial Control
- Production of Financial Performance Reports
- To Retain the Financial Viability of the Municipality
- To have an Unqualified Audit Report
- Internal Audit

b) Budget Policy

The aim of the policy is to set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as the responsibilities of the chief financial officer in compiling such budget.

c) Tariff Policy

A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

d) Rates Policy

In developing and adopting this rates policy, the council has sought to give effect to the sentiments expressed in the preamble of the Property Rates Act, namely that:

- the Constitution enjoins local government to be developmental in nature, in addressing the service delivery priorities of our country and promoting the economic and financial viability of our municipalities;
- there is a need to provide local government with access to a sufficient and buoyant source of revenue necessary to fulfill its developmental responsibilities;
- revenues derived from property rates represent a critical source of income for municipalities to achieve their constitutional objectives, especially in areas neglected in the past because of racially discriminatory legislation and practices; and
- it is essential that municipalities exercise their power to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation, and which takes account of historical imbalances and the burden of rates on the poor.

In applying its rates policy, the council shall adhere to all the requirements of the Property Rates Act no. 6 of 2004 including any regulations promulgated in terms of that Act.

e) Indigent Support Policy

The objective of Indigent Support Policy is to ensure the following:

- The provision of basic services to the community in a sustainable manner, within the financial and administrative capacity of the Council; and
- To provide procedure and guidelines for subsidization of basic provisions received from Central Government, according to prescribed Policy guidelines.

The Council also recognizes that there may be residents simply not able to afford the cost of full provision and for this reason the Council will Endeavour to ensure affordability through:

- Settings tariffs in terms of the Council Tariff Policy; which will balance the economic viability of continued service delivery; and
- Determining appropriate service levels.

f) Credit Control & Debt Collection Policy

The purpose is to ensure that credit control forms an integral part of the financial system of the local authority, and to ensure that the same procedure be followed for each individual case.

g) Supply Chain Management Policy

The objective of this policy is to provide a policy framework within which the municipal manager and chief financial officer can institute and maintain a supply chain management system which is transparent, efficient, equitable, competitive, which ensures best value for money for the municipality, applies the highest possible ethical standards, and promotes local economic development.

By adopting this policy the council further pledges itself and the municipal administration, to the full support of the Proudly SA campaign and to the observance of all applicable national legislation, including specifically the:

- Preferential Procurement Policy Framework Act No. 5 of 2000 and its regulations;
- Broad Based Black Economic Empowerment Act No. 53 of 2003 and any applicable code of practice promulgated in terms of that Act; and
- Municipal Finance Management Act No. 56 of 2003, including the regulations relating to the prescribed framework for supply chain management.

A paraphrase of the relevant provisions of the foregoing statutes is annexed to this policy.

Where applicable, the council also pledges itself to observe the requirements of the Construction Industry Development Board Act No. 38 of 2000 and its regulations.

h) Accounting Policies

Matatiele Local Municipality has always submitted its Annual Financial Statements in time to the Auditor General. Regrettably, qualified audit reports were received for the 2005/2006 and 2006/2007 financial years. The Budget and Treasury Standing Committee has addressed the matters that caused the qualifications and correctives steps have been implemented, which includes amongst others the strict adherence to policies.

The following accounting policies were adopted in the preparation of the Annual Financial Statements;

Basis of Presentation

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of:

- * *General Notice 991 of 2005, issued in Government Gazette no. 28095 of 15 December 2005; and*
- * *General Notice 992 of 2005, issued in Government Gazette no. 28095 of 7 December 2005; and*

The Standard comprise of the following:

GRAP 1 - Presentation of Financial Statements
GRAP 2 - Cash Flow Statements
GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4 - The Effects of Changes in Foreign Exchange Rates
GAMAP 6 - Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7 - Accounting for Investments in Associates
GAMAP 8 - Financial Reporting of Interests in Joint Ventures
GAMAP 9 - Revenue
GAMAP 12 - Inventories
GAMAP 17 - Property, Plant and Equipment
GAMAP 19 - Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of GAMAP 3 (Accounting Policies, Changes of Accounting Estimates and Errors):

- *Identification and impact of GRAP standards that have been issued but are not yet effective and changes to accounting policies. [Paragraphs 14, 19 and 30-31]*
- *The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of AC 142 (Non-current Assets held for Sale and Discontinued Operations):*
- *Classification, measurement and disclosure of non-current assets held for sale. [paragraphs 6-14, 15-29 (in so far as it relates to non-current assets held for sale), 38-42]*

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 109 (Construction Contracts) in its entirety.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 140 (Business Combinations) in its entirety.

Presentation currency

These annual financial statements are presented in South African Rand.

Going concern assumption

These annual financial statements are prepared on the basis that the municipality will remain a going concern for the foreseeable future.

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 115 (Segment Reporting) and AC 146 (Operating Segements).

Foreign currency transactions

The Municipality will not incur a foreign currency liability other than that allowed by the MFMA.

Housing Development Fund

The Housing Development Fund was established in terms of Section 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, requires that the municipality maintain a separate housing operating account. Loans from National and Provincial Government used to finance housing developments undertaken by the Municipality were extinguished on 1 April 1998 and transferred to the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4)(d)(ii)(aa) read with, *inter alia*, Section 16(2) that the net proceeds of any rental, sale of property or alienation, financed previously from government housing funds, be paid into a separate operating account and be utilised by the Municipality for housing

development subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Fund:

- The proceeds in this fund are utilised for housing developments in accordance with the National Housing Policy and also for housing development projects approved by the MEC.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Any surplus / (deficit) on the Housing Statement of Financial Performance must be transferred to the Housing Development Fund.

Reserves

Capital Replacement Reserve (CRR)

In order to finance the future provision of infrastructure and other items of property, plant and equipment from internal sources amounts are transferred out of the accumulated surplus/(deficit) into the Capital Replacement Reserve (CRR) in terms of a Council resolution. The cash allocated to the CRR can only be utilised to finance items of property, plant and equipment. The following provisions are set for the creation and utilisation of the CRR:

- The cash which backs up the CRR is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the municipality.
- Interest earned on the CRR investment is recorded as part of total interest earned in the Statement of Financial Performance.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and may not be used for the maintenance of these items.
- The CRR is reduced and the accumulated surplus/(deficit) credited with corresponding amounts when the funds are utilised.
- The amounts transferred to the CRR are based on the Municipality's need to finance future capital projects.
- The Council determines the annual contribution to the CRR.

Capitalisation Reserve

On the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive (budget circular) issued by National Treasury.

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

Government Grant Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Government Grants.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/(deficit) to the Public Contributions and Donations Reserve equal to the Public Contributions and Donations Reserve recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Public Contributions and Donations Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Public Contributions and Donations.

When an item of property, plant and equipment financed from Public Contributions is disposed, the balance in the Public Contributions and Donations Reserve relating to such item is transferred to the accumulated surplus/(deficit).

Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. Land and buildings are revalued every four years. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/(deficit). On disposal the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on current values, are credited or charged to the Statement of Financial Performance.

Financial Instruments

Financial instruments carried in the Statement of Financial Position include cash and cash equivalents, investments, accounts receivable, accounts payable and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or have been transferred and the Municipality has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when it is extinguished, i.e. when the contractual right is discharged, cancelled or expires.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 144 (Financial Instruments: Disclosure). For AC 133 (Financial Instruments: Recognition and Measurement) the initial measurement of financial assets and liabilities at fair value is exempted. [SAICA Circular 09/06 paragraphs 43, AG 79, AG 64 and AG 65 of AC 133]

Leases

Lessee Accounting

Amounts held under finance leases are initially recognised as assets of the Municipality at their fair value at the inception of the lease or, if lower at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Municipality's policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Municipality will not incur a foreign currency lease liability other than that allowed by the MFMA.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 105 (Leases) with regards to the recognition of operating lease payments / receipts on a straight line basis if the amount is recognised on the basis of the cash flows in the lease agreement. [SAICA Circular 12/06 paragraphs 8-11 and paragraphs 33, 34, 50, 51 of AC 105])

Lessor Accounting

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return to the Municipality's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for the intended use or sale, added to the costs of these assets, until such time as the assets are substantially ready for their intended use of sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of financial performance in the period in which they are incurred.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Municipality has the unconditional right to defer settlement of the liability for at least 12 months after the date of the Statement of Financial Position.

Provisions

A provision is recognised when the municipality has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The municipality has discounted provisions to their present value when the effect of the time value of money is material. The notional interest charge representing the unwinding of the provision discounting is included in the Statement of Financial Position.

Provisions are reviewed at each Statement of Financial Position date and adjusted to reflect the current best estimate.

Employee Benefits

(a) Pension obligations

The Municipality operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Municipality pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated bi-annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Post Retirement Medical obligations

The Municipality provides post-retirement healthcare benefits to its retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to

the Statement of Financial Performance over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 116 (Employee Benefits) with regards to defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and the defined benefit obligation disclosed by narrative information. (paragraphs 29, 48-119, 120A(c) – (q))

Trade Payables (Creditors)

Trade payables and other receivables are originally carried at fair value and subsequently remeasured at amortised cost using the effective interest method

Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the basic salary of the employee.

Unutilised Conditional Grants

Unutilised conditional grants are reflected on the Statement of Financial Position as a creditor – Unutilised conditional grants. They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- The cash which backs up the creditor is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.
- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Conditional Grant into the statement of financial performance as revenue. Thereafter an equal amount is transferred on the Statement of changes in net assets to a Government Grant Reserve. This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilised Conditional Grants. The Government Grant Reserve is used to offset depreciation charged on assets purchased out of the Unutilised Conditional Grants.

Value Added Tax

The Council accounts for Value Added Tax on the cash basis.

Property Plant and Equipment

Land and buildings held for use in the production or supply of goods and services, or for administrative purposes, are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed every four years when the municipal valuation roll is updated.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a Revaluation Reserve in the Statement of Changes in Net Assets. Decreases that offset previous increases of the same asset are charged against the Revaluation Reserve directly in the Statement of Changes in Net Assets; all other decreases are charged to the Statement of Financial Performance. Each year the difference between depreciation based on the revalued carrying amount of the asset is charged to the Statement of Financial Performance and depreciation based on the asset's original cost is transferred from the Revaluation Reserve to the Accumulated Surplus/ (Deficit).

Depreciation on revalued land and buildings is charged to the Statement of Financial Performance. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the Revaluation Reserve is transferred directly to the accumulated surplus / deficit.

Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

All other property, plant and equipment are stated at historical cost less depreciation and any accumulated impairment losses. Historical cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Municipality's accounting policy.

The Municipality has adopted a capitalisation threshold whereby all expenditure below the threshold is expensed when incurred. The threshold is currently R 1 500 per item of PPE.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the item can be measured reliably. The carrying amount of a replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and buildings under construction over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The depreciation rates are based on the following estimated useful lives:

Table F4 Depreciation Period

	Years		Years
Infrastructure		Other	
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-30	Other vehicles	5
Water	15-20	Office equipment	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
		Bins and containers	5
Community		Specialised plant and	
Improvements	30	Equipment	10-15
Recreational Facilities	20-30	Other plant and	
Security	5	Equipment	2-5

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised (net) in the Statement of Financial Performance. When revalued assets are sold, the amounts included in the Revaluation Reserve are transferred to the Accumulated Surplus/(Deficit) directly in the Statement of Changes in Net Assets.

Heritage assets, which are defined as culturally significant resources are not depreciated as they are regarded as having an infinite life. Land is also not depreciated for the same reason.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of GAMAP 17 (Property, Plant and Equipment):

- *Review of useful life of item of PPE recognised in the annual financial statements. [Paragraphs 59-61 and 77]*
- *Review of the depreciation method applied to PPE recognised in the annual financial statements. [Paragraphs 62 and 77]*
- *Impairment of non-cash generating assets. [Paragraphs 64-69 and 75(e)(v) – (vi)]*
- *Impairment of cash generating assets. [Paragraphs 63 and 75(e)(v) – (vi)]*

Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost. Subsequent to initial recognition investment properties are shown at fair value, based on periodic, but at least every three years, valuations by external independent valuers. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of AC 135 (Investment Property):

- *The entire standard to the extent that property is accounted for in terms of GAMAP 17.*
- *Disclosure of the fair value of investment property if the cost model is applied and where the municipality has recognised investment property in terms of this standard. [Paragraphs 79(e)(i) – (iii)]*

Intangible Assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of AC 129 (Intangible Assets):

- *The entire standards except for the recognition, measurement and disclosure of the computer software and website costs (AC 432) and all other costs were expensed.*

Impairment of Tangible and Intangible Assets

At each Statement of Financial Position date the municipality reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the municipality estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the Statement of Financial Performance, unless the asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a Revaluation Reserve increase.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with AC 128 (Impairment of Assets) in its entirety.

Financial Assets

The Municipality classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of the Statement of Financial Position. They arise when the Municipality provides money for goods or services directly to a debtor with no intention of trading the receivable and are initially recognized at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

Inventories

Inventories consist of consumables and are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values. Consumables are written down with regard to their age, condition and utility.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of GAMAP 12 (Inventories):

- *The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17.*
- *The entire standard to the extent that it relates to water stock that was not purchased by the municipality.*

Trade and other Receivables

Trade receivables are recognised initially at originating cost and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance. When a trade receivable is uncollectible, it is written off in terms of the municipality's Credit Control and Debt Collection Bylaw. Subsequent recoveries of amounts previously written off are credited against to the Statement of Financial Performance.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Revenue Recognition

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been done. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly.

Interest and rentals are recognised on a time proportion basis.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment. Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on unutilised conditional grants is allocated directly to the unutilised conditional grant creditor, if the grant conditions indicate that interest is payable to the funder.

Revenue from the sale of goods is recognised when **all** the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised

Revenue from non-exchange transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment are brought into use.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of GAMAP 9 (Revenue):

- *Initial measurement of fair value discounting all future receipts using an imputed rate of interest. [SIACA Circular 09/06 and paragraph 12]*

Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with the following requirements of AC 134 (Accounting for Government Grants):

- *Entire standard excluding paragraphs 24 and 26, replaced by paragraph 08 of GAMAP 12, paragraph 25 of GAMAP 17 and paragraphs 42 – 46 of GAMAP 9.*

Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Rounding

The amounts reflected in the financial statements of the Municipality are all in Rand, and all amounts are rounded off to the nearest Rand.

8.3.5 Audit Committee

Matatiele Local Municipality has not established an Audit Committee. The option of sharing a committee with sister municipalities in the District are being investigated.

8.3.6 Information and Communication Technology

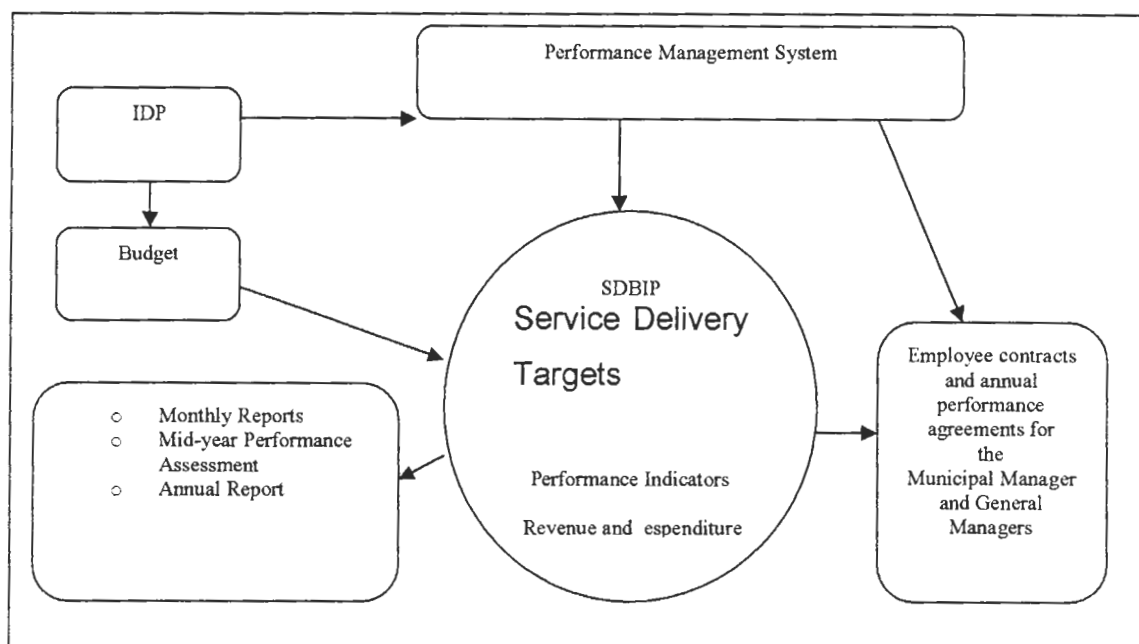
The ICT Software used by Matatiele Local Municipality is summarized in Table F5 below:

COMPANY	PROGRAMME	APPLICATION
1. Fujitsu	1. Abakus	1 Billing
		2 Creditors
		3 Stores
		4 Ledger
		5 Assets
		6 Advances
		7 Cash Book
		8 Customer Care
		9 Audit Extracts
		10 Hot key
	2. SCO Unix	1 Operating System
	3. Corvu	1 Report Writer
2. Payday	1. Payday	1 Payroll
		2 Leave
		3 Equity
		4 Human Resource
		5 Post
		6 Third Party Cheque
		7 General Ledger Interface
		8 Skills
		9 WSP & Implementation Reports
		10 Employee Self Service
		11 Employee Photo
		12 Statistical
		13 Budget
3. Contour	1. Contour	1 Pre-paid Electricity Vending
4. Syntell	1. Syntell	1 Pre-paid Water Vending
5. Elster	1. Cash flow 2000	1 Pre-paid Water Vending
6. Microsoft	1. MS Office	1 Word
		2 Excel
		3 Power Point
		4 Presentations and Publisher
		5 Adobe Acrobat 6.0, 8 & 5

	2. MS Exchange	1 Email
	3. Ms Small Business Server	1 Fire wall
7. Windeed	1. Windeed 2. Winsearch 3. Win Transfer	2 Property transfers 3 Title deed searches 4 Report on property transfers
8. Standard Bank	1. CATS	1 Electronic Banking
9. SITA	1. eNatis 2. Pals	1 Motor Vehicle Registration 2 Library Book issues
10. MUNTRA	1. MAMS	1 Municipal Asset Management System
11. Juta	1. Juta Law	1 Legislation searchers
12. First National Bank	1. Business Internet Solution	1 Electronic Banking
13. Co-Driver	1. Co-driver	1 Fleet Management
14. Tradepage	1. Web Host	1 Website hosting
15. Coretalk	1. Coretalk	1 SMS Facility & reporting
16. Arch View	1. Arch View	1 GIS
17. TGIS	1. Cemetery Register	1 Cemetery Register
18. Juta Law	1. Juta Law	1 Regulations of South Africa

8.4 THE SERVICE DELIVERY BUDGET IMPLEMENTATION PLAN (SDBIP)

The SDBIP marries the Performance Management System (as required under the Municipal Systems Act) with the budget and the IDP. Thus the strategic direction mapped out in the IDP is matched with financial resources and delivery of services as specified in the PMS. The requirement for a SDBIP is stated in the MFMA, Section 69.3 (a) and is the responsibility of the Municipal Manager.



The SDBIP allows the budget to be implemented fully as it identifies:

- The Strategic Imperative – Through links with the IDP.
- The Financial Imperative – Through links with the budget.
- The Performance Imperative – Through links to the PMS.

The National Treasury Circular 13 describes I detail the approach to SDBIP's. Basically there is a high level SDBIP for the purpose of high level monitoring by stakeholders, backed by full detail all the way to the individual employee. Starting from the top (the Municipal Manager), all staff operate under KPI's within the identified KPA's. In effect the SDBIP becomes the implementation tool for the budget and the basis for non-financial monitoring.

At the highest level every vote could be aligned to an IDP strategy and some KPI's. These then form the basis of future monthly and in year reporting.