



# Hessequa Municipality

## Integrated Development Plan

2012 – 2017

1<sup>st</sup> Review

Draft/Concept Document

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## Foreword by the Mayor, Cllr. E. Nel

As I tried to gather my thoughts for the writing of this foreword for the Integrated Development Plan, my head was filled with mixed thoughts about the eight months that I have been privileged to be the mayor of Hessequa Municipality. Ever since we took up this great responsibility of stewardship, I have been confronted with the immense sense of so much that needs to be done, but our actions are limited by time and resources.



It is within the balance of “what can we do with what we have”, where the 3<sup>rd</sup> Generation IDP played an immense role to give the organisation direction when the seas of operational activities flooded our diaries. As the IDP facilitated the process for the development of our vision and strategic direction, a calming sense of purpose continued to help make difficult decisions in the preparation for the coming financial years. Our commitment to a dedicated multi-year budget creates the environment where we can plan more strategically and embark on this voyage of service delivery to our communities.

Another factor, that was key in the IDP process, was the development of Pre-Determined Objectives. As the challenge was placed at our door by the Auditor General, the Hessequa IDP responds with a clear direction as targets have been set for our term of office to which we wholeheartedly commit. The Democratic Alliance and it’s coalition partners commits to bring change to all our communities, but not in the form of empty promises. The road ahead has been planned within the capacity we have and where resources are needed, we commit to do the best we can to realise our vision where everyone in our communities can experience the change we all desire. Everyone want the sense of security that a house brings to a household, services that can be trusted not to break down continually or threaten our health and living in a community of people who are proud of what they have.

We acknowledge the importance of communication and participation of our communities in the processes of local government. We trust that in the coming years the relationship between communities and government will be rebuilt through the newly established ward committees and sectoral representative platforms. Much needs to be done and I am excited to continue on this road towards the goal of being an accountable and efficient, local government.

*Emor Nel*

## Foreword by the Municipal Manager, Mr. J. Jacobs

Hessequa has the history of a municipality that aims to be an excellent local government. As communities suffer the negative effects of very real economic strain, the municipality finds itself in a place where the sustainability of our budgets is becoming a very real challenge. Within this context, the 3<sup>rd</sup> Generation Integrated Development Plan played an immensely important role to keep decision making objective. Simply stated, it is of no use setting goals, if we know it is impossible to reach.



The IDP facilitated the development of a set of strategic objectives and a roadmap at the hand of pre-determined objectives to ensure that focused impacts can be made in the coming 5 years. At the hand of area based planning methodologies the IDP has restructured planning in such a way that the reader will be able to see exactly what will be happening in his/her community within the coming years. This was strengthened by the commitment of council to approve a three year budget. This allows for the improvement of all processes that influence service delivery to the public and can the way forward be communicated better to all communities.

The development of a new ward committee structure ensures the beginning of a new relationship with all communities as we are committed to the inclusion of residents in municipal processes. Several representative platforms are in the process of being constituted and this serves as proof of our commitment of including as many role-players in all processes as possible.

However, it is important to note that Hessequa is experiencing serious pressure on its sources of income together with rising cost factors. Objective planning needs to be continued throughout the cycle of the 3<sup>rd</sup> Generation IDP, together with proper monitoring of progress on goals. The management of organisational performance in delivery on the goals set out in the IDP is of utmost importance to ensure the continued delivery of services to our communities in a manner that enhances their quality of life.

The IDP started to facilitate a renewed process of joint planning with all spheres of government to ensure that people are placed first when it comes to client services. Pro-active action plans are formalised to limit the impact of disasters on our residents and all of these strategic issues find their origin in the IDP.

One fact continues to surface in the content of the IDP and it tells us that our future is in the hands of all. Communities need to pick up their responsibility to join government forces and make the Hessequa dream a reality. The diverse nature of the Hessequa region is an asset and it needs to be considered something to be proud of. As Hessequa Municipality reaches for new heights, we look forward to a strengthened commitment of accountability to communities. I trust that the 3<sup>rd</sup> Generation IDP will be the foundation of a responsible, accountable and efficient local government, called Hessequa!

*Johan Jacobs*



2012-2017

& Beyond



## Legislative Framework

### Introduction

The first piece of legislation that provided guidance for the transformation is the highest level of legislation namely the Constitution of the Republic of South Africa (1996). The Constitution mandates local government to do the following:

	<p><b>DEFINITION OF MUNICIPAL OBJECTIVES</b></p> <p>In the Constitution (Act 108 of 1996) the objectives of a municipality or local government structure are described as follows:</p> <p>152. (1) The objects of local government are -</p> <ul style="list-style-type: none"><li>(a) To provide democratic and accountable government for local communities;</li><li>(b) To ensure the provision of services to communities in a sustainable manner;</li><li>(c) To promote social and economic development;</li><li>(d) To promote a safe and healthy environment; and</li><li>(e) To encourage the involvement of communities and community organisations in the matters of local government.</li></ul> <p>(2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).</p>
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Municipalities are no longer merely responsible for infrastructure, administration and regulations. They now have a **developmental role** and are described as an organ of state whose task it is to improve the quality of communities living within their boundaries. In other words, municipalities are much more responsible for **people**. As with all spheres of government, local government must also promote the Bill of Rights, which reflects the nation's values about human dignity, equality and freedom and uphold the principles enshrined in the Constitution.

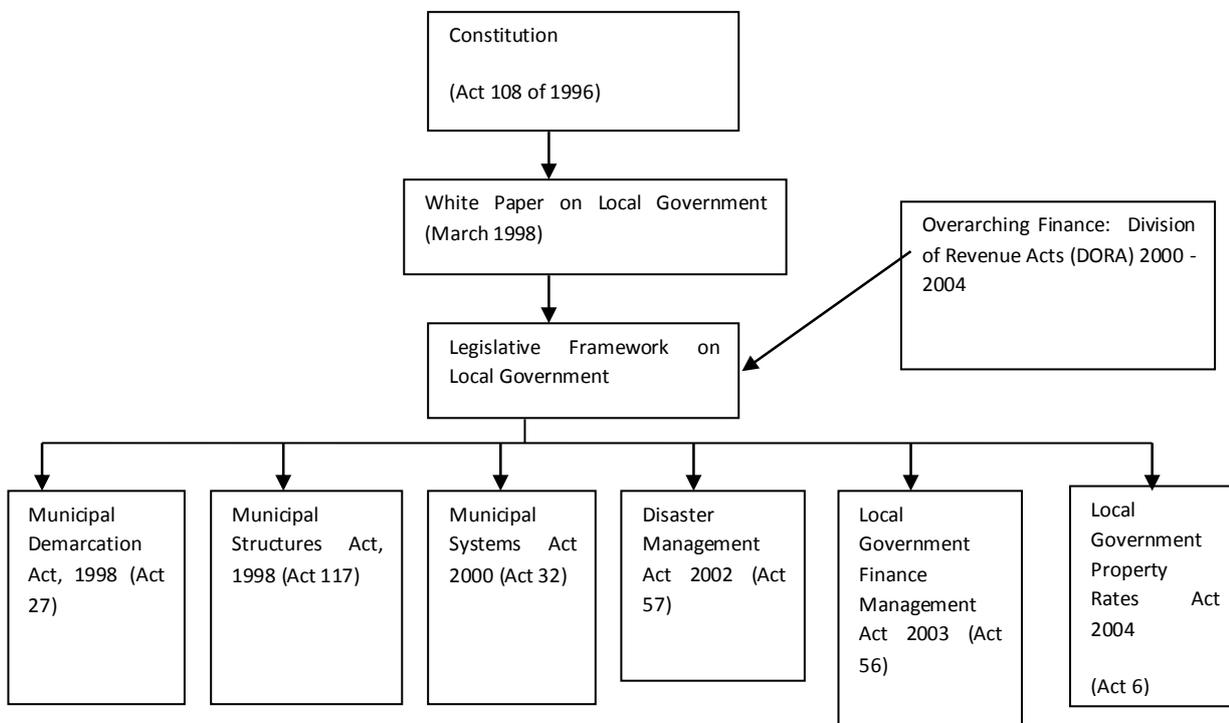
It is important to note that this responsibility was given to local government with the understanding that all three spheres of government will jointly strive to improve the wellbeing of communities. (Remember that the three spheres of government are local, provincial and national.)

The idea that the three levels of government should work together is also referred to as **cooperative governance**. What do you think of this cooperative idea? Do you think it's empowering? Does it encourage representation and democracy? How does the word 'cooperation' make you feel: good, worried, anxious or excited?

Central to this framework is the **White Paper on Local government (WPLG – March 1998)**. The White paper gave a clearer description of the new constitutional mandate of local government that replaces the traditional roles of municipalities with the requirements of developmental local

government. This places municipalities at the cold face of national efforts to rectify political, social and economic injustices of the past and wage the war against poverty.

In the following figure you will find an overview of all the pieces of legislation that form part of the legislation framework that determines the nature, functioning and practices of municipalities.



The above diagram is supported by Table 1 below and it provides an overview of the legislative outputs (pieces of legislation that was developed).

The intention of all the legislative outputs is to shape and influence the nature of local government.

TABLE 1: LEGISLATIVE OUTPUTS	
Legislation	Key issues relevant to the IDP process
Municipal Systems Act (MSA 32 of 2000)	<p>Sets out the principles, mechanisms and processes required for municipalities to shift into a new position within the landscape of development. Included in these mechanisms is the Integrated Development Planning process and Performance management systems.</p> <p>It also describes the legal nature of municipalities and the implications for the way that municipalities interact with communities, stakeholders and other spheres of government. Chapter 4 &amp; 5 of the Act is discussed in much greater detail in Learning unit 3: Integrated Development Planning.</p>

Municipal Demarcation Act 27 of 1998	<p>The Municipal Demarcation Act of 1998 gives effect to Section 155 (3) (b) of the Constitution that determines three categories of municipalities (see the section explaining the issues guided by the Municipal Structures Act below).</p> <p>The demarcation process dramatically reduced the number of municipalities in the country from 843 to 283 (made up of 6 metro municipalities, 46 district municipalities and 231 local municipalities – all of which we’ll discuss in more detail further on.)</p>
<p>The Municipal Structures Act (117 of 1998), together with</p> <p>The Municipal Structures Amendment Act (33 of 2000)</p>	<p>These two Acts guides the establishment of municipalities as provided for in the Constitution.</p> <ul style="list-style-type: none"> <li>• <u>Category A municipality</u>: A municipality that has exclusive municipal executive and legislative authority in its area. (This is called a metro municipality.)</li> <li>• <u>Category C municipality</u>: A municipality that has municipal executive and legislative authority in an area that includes more than one municipality. (This is called a district municipality.)</li> <li>• <u>Category B municipality</u>: A municipality that shares municipal executive and legislative authority in its area with a Category (C) municipality within whose area it falls. (This is called a local municipality.)</li> </ul> <p>These Acts offers criteria and procedures for the various categories and outlines the powers and functions of municipalities as provided for in the Constitution. The allocated powers and functions influence the content of the IDP and identify key issues that would require alignment of strategies and actions.</p>
Municipal Finance Management Act, No 56 of 2003	<p>The Act clarifies the requirements of transparent and accountable practices in government and specifically in local government. The Act reiterates the requirements for public participation and the commitment to effective utilisation of resources. The Act determines the manner in which municipalities can dispose of capital assets. It is particularly the financial cycle (schedule requirements) that influences the development and review cycle of the IDP to ensure a process of mutual influence. .</p>
Disaster Management Act 57 of 2002	<p>The Act provides for an integrated, co-ordinated disaster management policy in line with the MSA (2000) requirement for IDPs to include a disaster management plan to identify and deal with risks.</p>
Intergovernmental Relations Framework	<p>The Act is a response to the limited successes in the alignment efforts among the three spheres of government. The act creates a framework to support</p>

Act 13 of 2005(IGR)	<p>intergovernmental cooperation and coordination as required by the “cooperative governance” defined by the Constitution.</p> <p>The implementation framework of the IDP depends on the ability to influence the investment and spending of other spheres of government, the Act also referred to IGR (2005) represents an important support mechanism to the IDP process. It provides for the obligation of all spheres to participate in the planning processes of the municipality and in turn allow their own planning processes to be influenced by municipal IDPs. Topic 3: Cooperative Governance offers a detailed description of the Act.</p>
Local Government Property Rates Act 6 of 2004	<p>The purpose of this Act is to regulate the power of a municipality to impose rates on property; to exclude certain properties from rating in the national interest; to make provision for municipalities to implement a transparent and fair systems of exemptions, reductions and rebates through their rating policies; to make provision for fair and equitable valuations methods of properties; to make provision for an objections and appeals process; to amend the Local Government Municipal Systems Act, 2000, so as to make further provision for serving of documents by municipalities; to amend or repeal certain legislation; and to provide for matters connected therewith.</p>

We have given you a brief overview of the Legislative Framework of the IDP and in the remaining Topics 2 to 5 we will unpack those elements most relevant to the Integrated Development Planning process.

***Defining the Institution: Municipality***

The discipline of organization development suggests that: “form follows function”. Once the “function” of an organization is established (what the organization needs to do) the “form” of the organization can be identified.

The form of the organization is concerned with **how** the organization should be **structured** to perform those functions. Let us look at a definition as described in Chapter 2 of the Local Government: Municipal Systems Act (32 of 2000):

	<p><b>DEFINITION OF A MUNICIPALITY</b></p> <p>A municipality is defined in the Municipal Systems Act 32 of 2000 as follows:</p> <ul style="list-style-type: none"> <li>• It is an organ of state within the local sphere of government;</li> <li>• It exercises legislative and executive authority within boundaries as determined by the Demarcation Board (Demarcation Act 1998);</li> <li>• It consist of (1) the political structures (2) administration and (3) communities of the municipality;</li> <li>• It functions within its area according to statutory and other relationships; and</li> </ul>
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	<ul style="list-style-type: none"> <li>• It is a separate legal personality and this means that its community is not liable for the actions of the municipality.</li> </ul>
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This definition of a municipality offers a description of a very unique organization. It is an institution with the following characteristics:

- It is located within a bigger system (autonomous yet interdependent)
- It faces unique managerial challenges by accommodating both political and administrative leadership
- The client or consumer (communities) is defined as part of the institution
- The relationship with other stakeholders is a key indicator in the success of the municipality.

The foundation of the responsibility of Municipalities is to give effect to the provisions of the Constitution to:

- Give priority to the basic needs of the local community
- Promote the development of the local community
- Ensure that all members of the local community have access to at least minimum level of basic municipal services.

(MSA 2000: Chapter 8)

### ***Powers and Functions***

The discussion regarding powers and functions is relevant in a number of ways namely:

- District and Local municipalities have to consider the work allocated to them within the legislative framework. In terms of measuring the performance of the municipality, management would have to reflect on the extent to which their organization is performing these tasks.
- The powers and functions refer to concurrent functions implying that different government institutions (different spheres) share responsibilities with regard to these tasks. A particular dilemma regarding power and functions is the shared roles between district and local municipalities.
- Ultimately the system of powers and functions reiterates the requirement for cooperative governance.

### **Allocation of Powers and Functions**

District and local municipalities obtain their powers and functions in a number of ways including:

- Allocation by the legislative framework (The Constitution and the Municipal Structures Act 33 of 2000)
- Authorization of national functions by the National Minister of Provincial and Local Government
- Adjustments of allocated functions by the Provincial Member of Executive Council (MEC) for Local Government
- Delegation or assignments by other spheres of government.

The information contained in the section relies mainly on practical experiences and information in a booklet published by the Department of Provincial and Local Government: *Questions & Answers Booklet – Implications of the National Government division of powers and functions for Water, sanitation, municipal health and electricity services between district and local municipalities (2003)*.

Learners should ensure that they have access to a copy of the document to supplement these extracts. The IGR practitioners Guide (2006) will in future be the key guiding tool regarding this issue.

### Legislative allocation of powers and functions

The Constitution [Chapter 7, Section 152 (1) and (2) as well as Section 153 (a) and (b)] entrench the obligations of local government by outlining the functions and services to be performed by local government. These powers and functions are shared among the various spheres of government and when consulting the constitution schedule 4 and 5 lists the given powers and functions in relation the shared responsibilities with national and provincial.

- Schedule 4, Part A describes local government functions over which the national government and provincial government levels *both* have legislative competence
- Schedule 5, Part A lists local government functions over which provincial government has *exclusive* legislative competence.

The division of powers and functions refers to how the functions will be divided between district and local municipalities. The key legislation to consult on this matter is the Municipal Structures Amendment Act 2000 (Act 33 of 2000). The allocation of a power and function implies both the authority function and the provider function.

The authority function includes:

- Making bylaws and regulating compliance;
- Developing and implementing policies;
- Deciding on tariffs and the allocation of equitable share;
- Planning the service levels; priorities and how service will be delivered;
- Identify and prioritise infrastructure requirements (capital projects); and
- Deciding on water services provider arrangements (means of service delivery).

For example if a municipality has the powers and functions for water and sanitation, it becomes the water service authority (WSA) and it has the right to be the water service provider (WSP). The water service authority might contract a water service provider to provide the given service. The water service provider does not become the authority but merely the provider.

The provider function includes:

- Daily operations and repairs
- Preventative and major maintenance
- Customer relations and communication
- Revenue collection and related financial management
- Health and hygiene awareness

- Providing information on the provision of the relevant service

### Process of authorisation

The process of authorization (the power of the **Minister of Provincial and Local Government** to allocate powers and functions to a local municipality) creates the possibility that local municipalities can become responsible for powers and functions belonging to district municipalities.

Authorization refers only to national functions namely:

- Potable water supply
- Domestic waste water disposal systems
- Municipal health services
- Bulk supply of electricity

The process of authorization is influenced by the capacity assessment reports compiled by the Demarcation Board.

The provincial MEC can also allocate other functions to local municipalities but this refers to powers and functions listed in part B of schedule 4 and 5 and it does not refer to the national functions referred to above. This process is referred to as *adjustment* and not *authorization*. Municipalities could also receive responsibilities via the process of *delegation or assignment*:

- *Delegation* implies that the municipality will exercise the power and function on behalf of national and province subject to the conditions placed on the delegation.
- When power is *assigned*, a municipality exercises the power and functions as if it is an original power or function.

The following table 2 provides an overview of the functions allocated to local government by different legislative documents. It also indicates the concurrency of the power with national and provincial spheres.

TABLE 2: FUNCTIONS AND POWERS OF LOCAL GOVERNMENT		
Powers and functions allocated to District municipalities	National and Provincial government have legislative competence	Provincial government has exclusive legislative competence
STRUCTURES ACT	CONSTITUTION: SCHEDULE 4	CONSTITUTION: SCHEDULE 5
Solid waste disposal sites in so far it relates to:  Waste disposal strategy  Regulation of waste disposal  Establishment, operation and	Air pollution  Building regulations  Child care facilities  Electricity and gas	Beaches and amusement facilities  Billboards and the display of advertisements in public places  Cemeteries, funeral parlours &

control of waste disposal	reticulation	crematoria
Municipal roads which forms an integral part of a road transport system	Fire fighting services	Cleansing
Regulation of passenger transport services	Local tourism	Control of public nuisances
Municipal airports that serves the whole district	Municipal airports	Control of undertakings that sell liquor to public
Fire fighting services	Municipal planning	Facilities for the accommodation, care and burial of animals
Establish, conduct and control fresh produce markets and abattoirs serving large parts of the district	Municipal health services	Fencing and fences
Establish, conduct and control of cemeteries and crematoria serving large part of the district	Municipal public transport	Licensing of dogs
Promotion of local tourism	Municipal public works	Licensing and control of undertakings that sell food to the public
Municipal public works relating to district responsibility	Pontoons, ferries, jetties, piers & harbours	Local amenities
	Storm water management systems (build up areas)	Local sport facilities
	Trading regulations	Markets
	Water and sanitation services (potable drinkable)	Municipal abattoirs
	Water supply systems	Municipal parks and recreation
	Domestic waste water	Municipal roads
	Sewage disposal	Noise pollutions
		Pounds
		Public places
		Refuse removal
		Refuse dumps
		Solid waste disposal
		Street trading
		Street lighting
		Traffic and Parking

The description of roles between district and local municipalities are not clearly defined in the legislation. The district municipality is intended to act as *co-ordinator* and a mechanism through which provincial and national government link to local government.

The district municipality is also responsible for assisting local municipalities with limited capacity, thus the role varies according to the capacity of the local municipality. The relationship with regard to issues of mutual interest is left to the intergovernmental relations framework and the alignment processes in the IDP.

Unfortunately, if these processes are not functional the IDP could result in fragmented planning, duplication or the exclusion of key issues as it is assumed to belong elsewhere. For example:

- The environmental dimension of the local IDPs is neglected as it is seen as a District Municipal role
- The delayed formulation distribution of District frameworks for example spatial development framework, environmental management plan, disaster management and waste management systems
- Strategies related to tourism in Local Municipal IDPs duplicate and /or contradict the strategies reflected in the District IDP.

In the following section we will search for practical options to avoid the situations described above.

#### Relevance of powers and functions for the IDP

We have now discussed the powers and functions of municipalities. Next we need to ask the question: What is the relevance of these powers and functions of the IDP process of the municipality?

- i. In order to **respond to community needs**, the planning outcomes of the **IDP need to be aligned with the legal responsibilities of the municipalities** as defined by the powers and functions. In the IDP Guide Pack II, p 6 we read:

*The IDP is the “Adoption of a framework for integrated development planning by each district municipality which binds both the district municipality and the local municipalities in the area and which is supposed to ensure proper consultation, co-ordination and alignment of the planning process of the district municipality and the various local municipalities.”*

The allocation of resources should be based on the strategic plan namely the IDP. If the content of the IDP is not in line with the powers and functions, such resource allocations would be unacceptable in terms of the Municipal Finance Management Act, No 56 of 2003.

Therefore prioritization, identification of projects and the linkage of the IDPs financial requirements with the municipal budget process require synergy between the IDP process and the powers and functions.

Questions during the prioritization process should include the extent to which the community needs relate to the given powers and functions.

- i. The above result in the **need for a “referral system”** that enables municipalities to channel development needs to the appropriate authorities. For example: issues such as tarring of roads.
- ii. The concurrent nature of the powers and functions, with reference to the legislative functions of national and provincial government, requires municipalities to **plan within the given frameworks**. This practically means that during the discussion of each issue in the planning process the question should emerge: “What does the national and/or provincial legislative or planning requirements say about this issue?” Also see number **v(c)** below in this regard.

Secondly, the issue of the **funding stream** emerge. Depending on the nature of the development issue the municipality might have powers and functions but the financial resources reside with a different sphere or department. This strengthens the need for cooperative governance both in determining the strategic direction and in the compilation of budgets and funding strategies.

- iii. Municipalities who functions within this framework **improve the quality of their public participation processes**.
- iv. This **division of powers and functions influences the alignment efforts** between Local and District municipalities. Considering the lack of clarity in terms of roles one can expect that the alignment process do not add the intended value. The IDP process institutionalizes a mechanism where clarity should be created through a dialogue namely the **District Framework**.

The intention of the framework is to create a dialogue among municipalities which includes:

- (a) The framework should **unpack the areas of interdependencies** between the district and local municipalities as created by the powers and functions. Ultimately the alignment needs to clarify what we need from each other in order to deliver the intended services.
- (b) The framework considers the benefit of **“collective” bargaining**. The District Municipality might have better negotiating power with a particular provincial department or corporate service provider - the pressure from a single local municipality versus the pressure of 5–6 combined municipalities.
- (c) The framework considers the principle of **“economy of scale”** with regard to incorporating the binding legislative and planning requirements of provincial and national spheres in the integrated development planning process. The total of the individual effort of each local municipality in summarizing the relevant legal and sector requirements that should influence the planning process will far outweigh the single effort by the District. As the same documentation will be relevant to all it seems logical to allocate this work to one party.

## A New Policy Framework

### **Introduction**

In South Africa we boast in a democratic existence that celebrates the “voice” of the voting booth as compared to previous regimes where the voice of the minority ruled. As the democratic process makes its mark every 5 years in a local government context, the outcomes might bring change in a policy framework or strengthen the existing. During the 2011 elections, Hessequa Municipality experienced a trying time of stability as the “voice” of the voting booth was indecisive. This then resulted in coalitions being formed and in the end, a new council.

A policy framework for a governing body is of utmost importance, as it communicates the approach that the governing body will employ during the development phase of objectives. It creates the scope or the spectrum which guides an institution to identify areas of importance to the governing body. The following diagram shows it graphically.

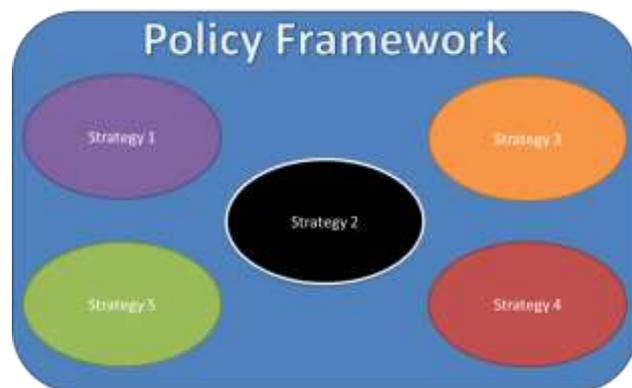


Figure 1 - The Essence of a Policy Framework

The governing coalition in office since August 2011, expressed the need to review and maybe, the redesign of the policy framework as it was set in place by previous governing parties. There are key sets of circumstances that created the need for governing policy review.

- The condition of the world economy created an environment where operating costs have escalated to an extent where decisions need to be made in terms of funding allocations
- Furthermore the need was identified to talk about the need for reconsideration of what the roles of a municipality needs to be when costs of services are considered
- The new governing body were in the opposition seats for a long time and need to make changes according to what they find to be better in service of the communities they serve.
- Another motivation for policy change is due to the fact that the municipality did relatively well for the last few years in terms of service delivery when compared to municipalities across the country. However, in terms of management of the municipality, it is of great concern to the new governing coalition; there is still room for improvement. This improvement aims at the changing of Hessequa into an example of a well-managed local government.

An interesting, but challenging, process initiated to look at the management of the organisation of Hessequa and strategically develop policies that would safeguard the sustainability of Hessequa and its people in difficult times. Several governing policies were identified as tools for bringing change to the “status quo” of service delivery and in mitigation of current threats to the existence of Hessequa Municipality. The following sets of guiding policies are summaries of in depth discussions between not merely the governing coalition, but the senior management at the time was included in these discussions to ascertain the feasibility of it.

### ***Sustainability Policy***

- A balanced approach to development of the economy, the social fabric of our communities and the responsible utilisation of natural resources.
- Decision making considers the interests of ALL people as Hessequa is a region with different communities and inevitably, different needs.
- Responsible financial planning to enhance affordability to the residents
- Delivery of services in a realistic manner to informed communities
- A more holistic view of the housing need in Hessequa
- Spatial development that considers the socio-economic realities of communities
- Sensitive reconsideration of current use of municipal assets.

### ***Vulnerable Groups***

The following people groups are identified and recognised as vulnerable people groups (*alphabetically ordered*):

- Farm Workers
- People affected by HIV/Aids
- People with disabilities
- Senior Citizens
- Women
- Youth

### ***Communication***

- Realistic and open communication with the public concerning issues that impact them as residents in an understandable way.
- Response to issues raised by the public, to give a sense that someone is listening to their concerns.
- Development and inclusion of representative platforms for focused discussions concerning governing issues.

### ***Financial Policy***

- No new appointments to be made, unless it is of utmost necessity due to affordability
- All financial contributions from property sales to be deposited into the Capital Replacement Fund.
- Strengthened approach to maintenance of existing infrastructure through a larger contribution to maintenance in operational budgets
- Broadening the Indigent Help safety net as far as possible

## Hessequa Vision & Developmental Focus Areas

### **Introduction**

The Hessequa Municipality embarked on the 3<sup>rd</sup> Generation IDP Process with a clear set of principles in mind as the Strategic Framework was being developed. One very important principle that was identified as a lesson learnt from the previous two generations of IDP's, was the need to move away from "wish lists". In the past all inputs was received and ended up in a document that was non-fundable with the given financial capacity of Hessequa. Even though the IDP's did include the plans for the different services, it was still amounting to an immense "need" in terms of funding to resolve of the issues raised by planning within the different services of the municipality. The clear need for "feasible" and "sustainable" plans to be located in the IDP document became very clear. The principle of "Outcomes Based Planning" was chosen to enhance the quality of the IDP to a standard where a person can look at the document and clearly see what is going to be done in his/her community and in which financial year.

Two other principles were also identified and are evident from the last sentence of the previous paragraph. The second being the principle of the planning being able to reflect a specific area/community's reality in terms of needs. The third principle is the multi-year commitment about what is going to be done in a given area/community. This would give the reader a clearer view of what the municipality is planning for implementation in his/her community. Immediately the credibility of the IDP in the eyes of the community is restored and the community can begin to feel a sense of accountability being given from the municipality through clear commitments in service delivery.

Even though these principles find their value in the IDP, the change it demands is not found in the IDP process alone, but in all three of the main municipal processes. As a result of these principles, the management of the complete institution is challenged and shaken into a place where the Planning, Budgeting, Monitoring and Evaluative processes are integrated into a synchronised flow of information which is generated from planning, guiding implementation and generated by implementation for evaluative purposes.

### **Outcomes Based Planning**

As it was stated in the previous section, the need to be clearer on specific outcomes about what the resident can expect to be done during the elected Council's term of office, an approach of Outcomes Based Planning is needed. This approach takes the Policy Framework and guides the Council in the development of creating Strategic Objectives. Each Strategic Objective is then considered to identify specific Impacts that Council would like to achieve during their term of office, in other words, over a term of 5 years. To achieve



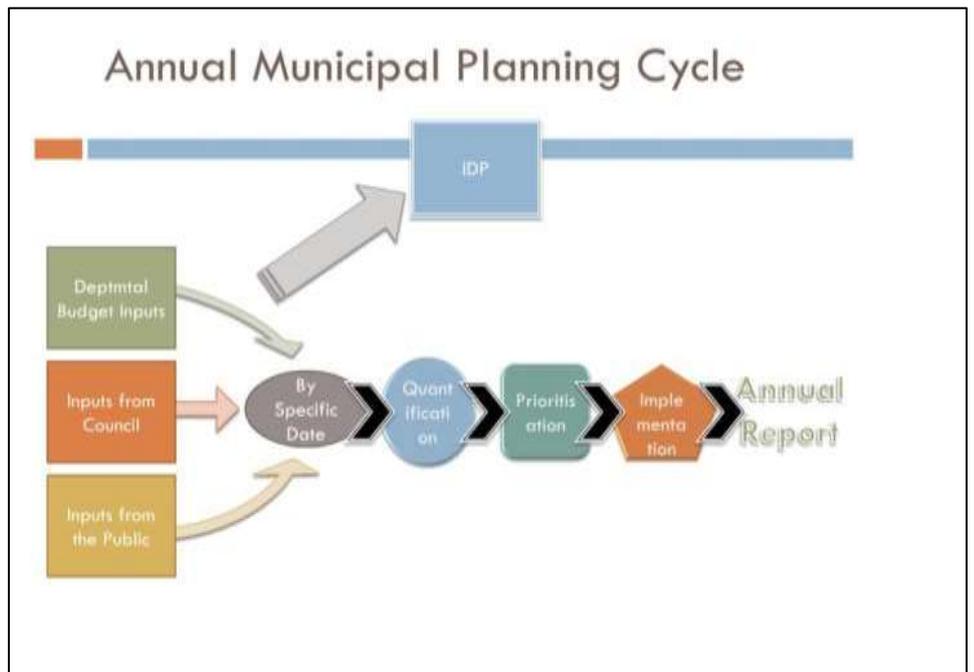
one of these Impacts, certain Outcomes must be achieved over the 5 year term. Every Outcome is then broken down into specific annual outputs that need to be delivered individually over the five financial years. It continues to identify the Activities and Inputs that are needed to achieve every Output. The methodology is very simple in approach and can be explained at the hand of the above triangular figure which explains the steps at the hand of guiding questions.

**Process Integration**

It is within this background, as briefly highlighted in the previous section that the 3<sup>rd</sup> Generation IDP process found its point of departure.

The following diagram indicates the current process of planning in many local municipalities.

This layout of the budgetary cycle does look logical and systematic and it even includes the public’s inputs as is required by legislation. However, there are several indirect issues that do not get addressed in this model. Indirect symptoms of this methodology that causes a municipality to step into an array of problematic scenarios.



Shortages in this model can be summarized as follows:

- This process clearly identifies the latent assumption that when something is in the IDP, it can be budgeted for. This creates the problematic scenario where every item needs to be “taken up into the IDP” for purpose of allowing it to be budgeted for. The issue is not to get items into the IDP, but more of getting issues forthcoming from planning into the budget.
- Due to the annual nature of the cycle it leaves the items from the previous year that didn’t make the priorities of the previous year, to compete again against new priorities. This in effect causes some items to be shifted to outer years every year. It is a risk of getting used to moving certain items out of the annual investment and cause some items to become more and more expensive as they do need to get done one or another time, but the longer the wait, the larger the cost.
- Another risk that the municipality expose themselves to in this manner of going about their business concerning the budget process, is the competition of ad-hoc items that can cause items, which might come from proper sectoral or master planning documentation, to be left out as it might not seem as an immediate issue that needs attention. The fact is actually that municipalities invest a large amount of funds on master planning documentation and when

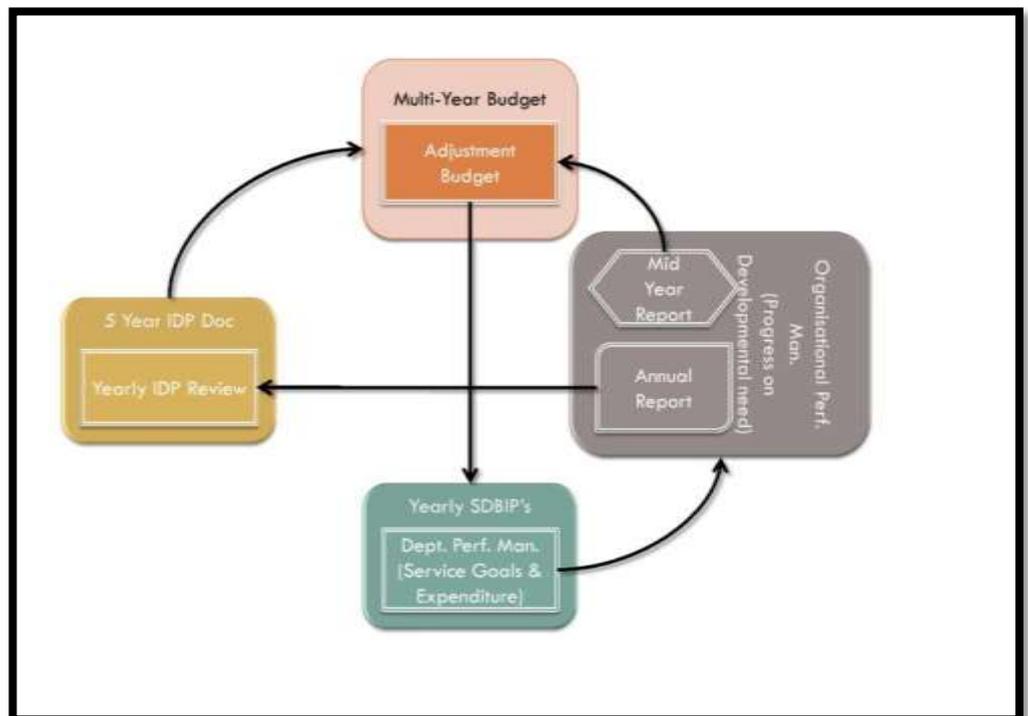
the identified issues is raised, it can get lost in the emotion of issues that might not be as important in terms of sustainable service delivery.

- Due to the annual nature of the cycle it brings the municipality in a short term planning culture. Pro-active investment is sacrificed for quick solutions.
- Even in the midst of municipalities strengthening their capacity in terms implementation, very little of operational information is used to plan ahead. Thus a proper evaluative process is difficult as impact on developmental cannot be measured with no multi-year planning that is in place.
- The final issue that needs to be considered is that in this methodology, no resident or investor can get a clear perspective about what are the municipality going to do in the medium term. Except for the interest groups, in general the public would not experience a council that is accountable to what they say they are going to do. In terms of Good Governance as a strategic objective, this process fails the public as inputs given only creates expectations in the hearts of the residents and when the following year little was implemented, the question is asked by the public why they are giving inputs at all as it is not being implemented. Obviously every input can't be satisfied, but at least in a different model people can see what the council commits themselves to over a period of time.

The following diagram displays a medium term planning cycle, integrating the different processes as legislation intended it to be.

First of all the process begins with a 3-5 year plan about what every line function is going to do strategically

concerning the identified issues pertaining to their field of responsibility. This allows a multi-year budget to be conceptualized. When this is done the annual targets are set and transferred into the SDBIP process that serves the platform for Departmental Performance Management that compares predetermined



objectives to implementation reports. This serves as a source of performance information that guides the municipal performance evaluation, which in turn compares the outcomes of implementation to the developmental need that is experienced by the average resident walking the streets of the municipal area.

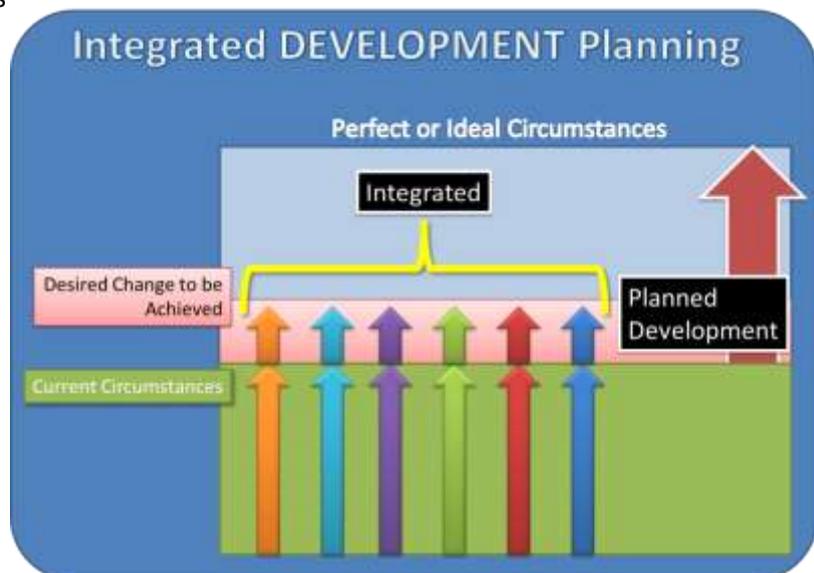
The performance reports generated by the performance management system bi-annually informs the adjustment budget after the second quarter of the financial year and at the end of the financial year it serves as departure point for the annual review of the IDP. This would then allow the review to actually fulfil its role of highlighting the differences between predetermined objectives and implementation.

However this methodology sounds ideal, it has very sensitive demands.

- First of all this model can only work where all the municipal line functions have a clear understanding about their challenges and have developed reachable targets for impacting their challenges within the municipal financial capabilities.
- A high risk for this model is that the municipal “culture” of how business is done, disrupts the flow of information from one process to the other
- It also takes for granted that each process is perfectly aligned to the other and know exactly what it can ask of the previous and what is expected by the next in terms of information.

### ***Integrated DEVELOPMENT Planning***

When the integration of process have been dealt with, it is important not to fall into a chaotic maze of managing each and every little activity that the municipality is already doing on a daily basis. This indirectly relates to the similar notion of trying to manage the performance of each and every person in service of the municipality through the formal Performance Management System. It becomes an immense task to



manage all the information and very confusing as different departments have different organisational layouts where one person might receive instructions from two people and of a varying nature. Even though it is possible, it creates a problem in terms of the original goal when we started to “plan”. It is supposed to be planning of a “developmental” nature. The goal is to create a plan for “calculated changes” to the current “Status Quo”.

The figure above explains this logic behind the concept of planning that considers the current realities and creates a base line from where the implementation of change departs from, to reach a calculated destination of service delivery.

## **HESSEQUA VISION STATEMENT FOR 2012-2017 AND BEYOND**

The first step that the new council took after it was inaugurated in September 2011 was to establish a medium to long term vision. The IDP coordinator facilitated a workshop with the governing coalition on the 28<sup>th</sup> of September 2011, with the aim of developing the vision on the foundation of clearly identified Strategic Objectives. In essence the vision statement then becomes an executive summary of that which the governing group would be aiming to achieve during their term of office and to create a sustainable governing environment for development in the future.

The Hessequa Municipality is at a place and time where serious decisions need to be made concerning service delivery within the scope of its tax base and rates payers. Municipal budgets are capped at a 6% growth rate on the one hand, but on the other hand costs are escalating in much larger percentages. Even though land sales boost infrastructure investment, since 2009 no major land sales realised in Hessequa as the global economic uncertainty caused the property market to come to a grinding halt in Hessequa. These are just to name a few realities that needed to be considered before a vision for the future could be conceptualised.

Even though the vision statement does not aim at a specific year in the long term future, it recognises the reality that a long term vision would not be attainable if the medium term responsibility in terms of mitigation for serious short term threats is not addressed. The sustainability of the municipality within the coming three years will be tested as the detail spelt out in the Institutional Overview would highlight. There are some serious issues that need attention over the medium term to secure a shure foothold in the longer term.

The vision then aims at a sustainable condition for Hessequa by stabilising the three pillars on which its existence depends. Our People, our Economy and our Environment. It promises benefit to everyone, responsibility in governance and leadership.

The vision for Hessequa Municipality as set out for 2012-2017 and beyond is:

***A CARING MUNICIPALITY WHERE EVERYONE REAPS THE  
FRUIT OF COST EFFECTIVE AND INNOVATIVE SERVICE  
DELIVERY, STIMULATED ECONOMIC GROWTH AND  
SUSTAINABLE USE OF NATURAL RESOURCES***

## Hessequa Key Performance Areas

As mentioned in the previous section, the vision was developed after serious considerations were given to the current circumstances presented to Hessequa Municipality. Analysis was done in terms of the institutional well-being to come to grips with what the municipality is facing. The financial state of the municipality was scrutinised. The economic realities in different sectors of the economy. The well-being of our people was placed under the “microscope”. A valuable resource in the sustainable development in Hessequa is our rich, bio diverse environment. An asset, but a very fragile one, as changes in climate and extreme weather conditions continues to challenge management of our environment. The Hessequa Council has set the following 7 Focus Areas ahead of themselves with specific impacts to be made:

- **EFFECTIVE COMMUNICATION AND PARTICIPATION.**
- **TO LIMIT THE IMPACT OF OUR PRESENCE IN THE NATURAL ENVIRONMENT AND RE-ESTABLISH A HERITAGE OF PRESERVATION.**
- **MAINTENANCE AND DEVELOPMENT OF ALL INFRASTRUCTURE AND SERVICES.**
- **DEVELOPMENT OF SAFE AND INTEGRATED HUMAN SETTLEMENTS.**
- **HUMAN DEVELOPMENT INITIATIVES TO ENHANCE THE SOCIAL WELL-BEING OF ALL OUR RESIDENTS.**
- **TO STIMULATE ECONOMIC GROWTH FOR THE BENEFIT OF ALL COMMUNITIES.**
- **AN ACCOUNTABLE LOCAL AUTHORITY WITH A FIT FOR PURPOSE WORKFORCE AND TRANSPARENT FINANCIAL PRACTICES.**

As the heading for this section on focus areas read, these areas need to guide all planning and investments from the municipal budgets. The feasibility of any vision is located in the change that has been brought about by the set objectives after focused investment, based on a plan of change. This plan should inevitably be the Integrated Development Plan. It is an important reminder that a plan’s credibility is located in the implementability of its objectives. “Can we achieve what we want to achieve?” should be asked. If the answer is no to this question, a municipality is most definitely in a process of compliancy only and cannot claim, with any reasonable conviction, that the vision stated will become a reality. The 3<sup>rd</sup> Generation IDP of Hessequa Municipality departed on the principles that a vision that cannot be made a reality is not feasible, credible or responsible towards our communities who are expects an accountable government. Plainly stated, a government which does what it says it is going to do. The following section would look at the alignment of the objectives conceptualised on a local level with that of National and Provincial Government.

## Alignment of Priorities - National, Provincial and Local

The Hessequa IDP process acknowledges the strategic mandate placed on government as a whole and seeks to align its principles, strategies and targets accordingly. The strategic framework which was primarily considered in the development of the 3<sup>rd</sup> Generation IDP was the methodology found in the national and provincial outcomes based approach to service delivery.

After the national elections took place in 2009, the cabinet initiated a strategic process of review and specific strategic initiatives were identified in the form of the so called “12 Outcomes”. Each of these outcomes broken down into specific targets and goals to be achieved.

12 National Outcomes:

1. Improved quality of basic education.
2. A long and healthy life for all South Africans.
3. All people in South Africa are and feel safe.
4. Decent employment through inclusive economic growth.
5. A skilled and capable workforce to support an inclusive growth path.
6. An efficient, competitive and responsive economic infrastructure network.
7. Vibrant, equitable and sustainable rural communities with food security for all.
8. Sustainable human settlements and improved quality of household life.
9. ***A responsive, accountable, effective and efficient local government system.***
10. Environmental assets and natural resources that is well protected and continually enhanced.
11. Create a better South Africa and contribute to a better and safer Africa and World.
12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship.

The 9<sup>th</sup> Outcome identified, focused specifically on how the national government sees and desires local municipalities to perform in terms of being the service delivery institution closest to the public.

This Outcome is broken down in Outputs that identifies specific areas of delivery. Once more the outputs are focusing on a national level, but it addresses issues on a local level as well. Here are the 7 Outputs listed and a brief description of how the Hessequa IDP responded to these priorities in a tangible manner. It is important to note that these priorities cannot merely be placed in a table and compared with the identified objectives set on a provincial and local level, but proof of how it is being incorporated in specific targets of a local municipality alone can provide evidence to measure alignment.

1. Output 1: Implement a differentiated approach to municipal financing, planning and support

- 1.1. The targets within this outputs attempt to create a minimal set of compliancy measures for low capacity municipalities. Hessequa was not identified as a low capacity municipality and are therefore responsible for full compliancy to legislative and regulatory demands.
- 1.2. It includes the completion of the budget with the required reporting formats and even though the Hessequa Municipal finance team is under capacitated for the completion of these budget formats, Hessequa committed to compliancy and works hard to reach this goal.
2. Output 2: **Improve access to basic services.**
  - 2.1. this Output places specific targets on access to basic services within municipalities
  - 2.2. The Hessequa council does support the targets as these targets are already met within our urban areas, but being a rural municipality with a large portion of our residents living on farms, it is very difficult to gauge the compliancy to this output.
  - 2.3. In the area based planning section there is an overview of issues that have been identified in rural areas, but complete plans and interventions lack as no clear baseline has been established yet to quantise the need in the rural areas and propose specific interventions.
3. Output 3: Implementation of the **Community Work Programme**
  - 3.1. The aims of this output are supported by the Hessequa Municipality through the utilisation of the EPWP programme and other labour intensive programs of the Hessequa Municipality.
  - 3.2. Until now no clear guidance was given to local authorities concerning the specific program, but as mentioned above the aims of this program is supported and implemented through other job creation programmes availed to local municipalities
4. Output 4: Actions supportive of the **human settlement** outcomes
  - 4.1. The new Council of Hessequa Municipality identified a renewed commitment to the delivery of Integrated Human Settlements in the municipal area.
  - 4.2. Specific PDO's referring to this output have been identified and specific interventions will be identified and implemented within the capacity of the Hessequa Municipality
5. Output 5: **Deepen democracy** through a **refined ward committee** model
  - 5.1. Unfortunately the first year of the new Council were marked by the struggle to institute a new Ward Committee model which attempts to find representation of sectors within a the relevant ward.
  - 5.2. It still remains a target for the municipality to develop a level of participation of the public in municipal processes which will rebuild the constructive relationships between a local government and its communities
6. Output 6: Administrative and financial capability

- 6.1. This output gives specific targets in terms of the number of municipalities to enhance the credibility of their processes through the measurement of its Audit Report, collection rates, spending of funds, etc.
- 6.2. The Hessequa Council committed itself to move beyond these targets and developed several applicable PDO's. See the section on PDO's on page 26 for more information

**7. Output 7: *Single window of coordination***

- 7.1. This output identifies the need of a single space where all efforts of government needs to be focused. The Hessequa IDP interprets this goal into its own framework as being the facilitator or coordinator of all services rendered by government through effective partnerships and relations with National en Provincial Government Departments
- 7.2. The coordination role that Local Government is to play in its demarcated boundaries have be identified by the Council and specific targets have been set for delivery on this output through the strategic role a municipality can play in unlocking service constraints through collaboration.

Ultimately the Constitution of South Africa forms the basis of all alignment for a local government as the roles and responsibilities are clearly stated. The following table shows how Hessequa Municipality responds through its set of Strategic Objectives to the mandated strategic responsibilities identified on a national and provincial level.

Constitution Sect 152	Outputs for Local Government within "Outcome 9" - From Cabinet Lekgotla	Provincial 11+1 Objectives	Hessequa KPA's 2012-2017
To provide democratic and accountable government for local communities;	Output 6: Administrative and financial capability	A responsive, accountable, effective and efficient local government system.	An accountable local authority with a fit for purpose workforce and transparent financial practices
	Municipalities with unqualified audits to increase from 53% to 100%.		
	The average monthly collection rate on billings to rise to 90%.	An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship.	
	The percentage of municipalities with debtors more than 50% of own revenue to be reduced from 24% to 12%.		
	The percentage of municipalities that are overspending on opex to improve from 8% to 4%.		
	The percentage of municipalities under-spending on capex to be reduced from 63% to 30%.		
	The percentage of municipalities spending less than 5% of opex on repairs and maintenance to be reduced from 92% to 45%.		
To ensure the provision of services to communities in a sustainable manner;	Output 2: Improving Access to Basic Services	An efficient, competitive and responsive economic infrastructure network.	Maintenance and development of all infrastructure and services
	In respect of this output the following targets for improving universal access are set for the period ending 2014:	Vibrant, equitable and sustainable rural communities with food security for all.	
	Water: from 92% to 100%		Sustainable human settlements and improved quality of household life.
	Sanitation: from 69% to 100%		

	Refuse removal: from 64% to 75%	Environmental assets and natural resources that are well protected and continually enhanced.	infrastructure and services
	Electricity: from 81% to 92%		
To promote social and economic development;	Output 3: Implementation of the Community Work Programme - Develop 'useful work' ranging from 1- 2 days a week or one week a month, targeting the poorest wards. The target is to implement the CWP in at least 2 wards. per local municipality. By 2014 at least 30% of all job opportunities must be associated with functional cooperatives at the local level.	Decent employment through inclusive economic growth.	Human development initiatives to enhance the social wellbeing of our residents
		A skilled and capable workforce to support an inclusive growth path.	To stimulate economic growth for the benefit of all communities
To promote a safe and healthy environment; and	Output 4: Actions supportive of the human settlement outcomes	Improved quality of basic education.	Development of safe and integrated human settlement
	Overcome the apartheid legacy, actions supportive of the human settlement outcomes need to initiated such as increasing densities in metros and large towns, release of public land for low income and affordable housing on "well located land" with a 30 to 45 minute journey to work and services and using less than 8% of disposable income for transport by 2014.	A long and healthy life for all South Africans.	
	Grading and rezoning of informal settlements by municipalities is crucial.	All people in South Africa are and feel safe.	To limit the impact of our presence in the natural environment and re-

		Create a better South Africa and contribute to a better and safer Africa and World.	establish a heritage of preservation
To encourage the involvement of communities and community organisations in the matters of local government.	Output 5: Deepen democracy through a refined Ward Committee model	A responsive, accountable, effective and efficient local government system.	Effective communication and participation
	Strengthening our people-centred approach to governance and development is a core part of the building the developmental state in this country. Three important, but related, tasks must be undertaken:		
	Firstly, the legislative framework for Ward Committees and community participation must be reviewed and strengthened to broaden participation of various sectors and to propose revised / new responsibilities and institutional arrangements for Ward Committees.		
	Secondly, a new approach must be found to better resource and fund the work and activities of Ward Committees. The funding of local democracy and community participation cannot be a discretionary matter.		
	Lastly, various support measures must be put in place to ensure that at least 90% of all Ward Committees are fully functional by 2014.		

Figure 2 - Alignment of Strategic Objectives

## Inter-Governmental Relations Overview

### ***Introduction***

Hessequa Municipality forms part of the Western Cape and hosts several service delivery access points managed by other spheres of government which ranges from provincial departments, national departments and government funded service organisations.

No local municipality can function in isolation from the other two spheres of government being involved in its annual processes. Various platforms are maintained by the provincial sphere of government for coordination of oversight within local municipalities. Hessequa Municipality is committed to the development of strengthened service delivery through inter-governmental partnerships and continued collaboration for the good of our communities. Hessequa Municipality also serves as an agent for some functions allocated to provincial government. This have major implications on budgets and management processes that needs to be controlled well for reporting purposes to the relevant provincial department.

Continuous engagements based on technical sectors takes place throughout the year between national, provincial and local spheres of government. From an IDP perspective there are a few important engagements to highlight.

### ***District IDP Coordination***

The Eden District Municipality coordinates the strategic regional process and continues to facilitate important strategic issues on a district level through the gathering of role-players. There are also several technical committees in the district that creates joint planning platforms. Hessequa Municipality supports the processes initiated by the district municipality.

### ***Provincial IDP Forum***

The provincial department of Local Government (DPLG) facilitates quarterly meetings where regulatory information is shared and consulted with IDP representatives from all local municipalities in the province. It serves as an important platform for information sharing and more specifically providing the provincial department with a mandate to address certain IGR issues experienced by local municipalities. These sessions have always proven to be helpful and supportive of local municipality's processes

### ***Provincial IDP Indaba Programme***

As part of the oversight role Provincial Treasury needs to fulfil towards local municipalities two joint planning sessions is organised by DPLG. Both of these sessions aim at aligning the planning provincial government does in all its departments with the realities faced on a local level. Municipalities are given the opportunity to communicate the issues coming from their IDP processes and all departments on a provincial level commits to possible solutions. It has given local municipalities an opportunity to raise and discuss issues coming from our public participation processes in detail. Issues such as provincial roads maintenance, pedestrian safety, funding for backlogs in service delivery and many more have been raised.

### ***The LGMTEC Process***

The LGMTEC process is an IGR platform where Provincial Treasury portrays their direct oversight role towards the municipal budget. After the adoption of Draft IDP's and Budgets at the end of March

every year, municipalities supply these documents to Provincial Treasury who in turn evaluate the credibility of the strategic plan and the financial plan for the local municipality. Many issues concerning compliancy and financial sustainability are considered and debated with a set of recommendations from Provincial Treasury to the local municipality as an outcome. Hessequa Municipality commits to this process and supports the oversight role of provincial government for transparency and accountability reasons.

## PRE-DETERMINED OBJECTIVES – BACKGROUND

### Introduction

Municipalities in South Africa have undergone radical changes in terms of legislative requirements and especially lower capacity local councils have struggled to implement the changes. Economic realities have also caused pressure on councils to be more responsible in terms of expenditure. Furthermore communities have grown tired of promises being made indirectly in terms of planning that have been communicated with them from the side of municipalities. This have been seen where communities publicly expressed their dissatisfaction with the delivery on promises made by councils by protests. Furthermore we see how other communities are not interested in any planning processes anymore as they experience it as “useless” exercises due to “nothing happening” after the inputs to the plans was given.

The concept of Strategic Objectives, or Pre-Determined Objectives (PDO's) strives to rectify this very issue. It is being requested by the Auditor General of South Africa that municipalities must set their targets in their planning and be able to annually prove to the external auditing process how delivery was done and progress made on these objectives that were made. This requirement forces a municipality to start and be accountable to its communities. It forces objective communication between the municipality and its communities as targets that are being set cannot be “unreal”. It should be achievable and implementable. No more “pies in the skies” to make use of the informal figure of speech. It also forces municipalities to take stock of their capacity to implement the changes promised. Ultimately it becomes a tool to make realistic promises to the communities on issues relating to them.

Even though it seems to promise much, there is still a mountain of problems on the doorstep of municipalities in South Africa. However, gradual overcoming of obstacles can be planned for and realistic targets can be identified and communicated with the residents.

### Process Explanation

1. After a set of Focus Areas have been identified, the vision is developed from it. In essence it becomes a summary of that what the council deems important for Strategic Change, instead of a completely irrational and unrealistic vision which isn't meaningful at all.
2. After the Focus Areas have been identified, each is then broken down into Strategic Objectives (PDO's) that need to be delivered during Council's term of office that is needed to make the desired Impact. This is the first set of Objectives that a municipality have direct control over. This means that the municipality commits to a specific set of deliverables to attain the change desired by the residents.
3. After the PDO's have been developed in terms of what Council want to see, the officials continue to break down all Strategic Objectives into annual Outputs that resembles the change that needs to be brought about annually to attain the objective of the 5 year term of the Council.
4. Then the annual Outputs are broken down into specific Activities/Actions that need to be done to realize the annual Output.
5. Finally of course, everything costs something and the needed resources are allocated to implement the actions. The resources are Human Resource, Financial Resource and Time.

6. At this point the credibility of the goals is able to be tested for the first time. If any of the resources are not going to be available for a specific action, the plan will inevitably fail. This is where the balancing act between Plans and Ability to implement can be calculated in the measurement of Confidence.

## **PRE-DETERMINED OBJECTIVES – THE BUILDING BLOCKS FOR PERFORMANCE MANAGEMENT**

To be able to complete the cycle of Planning, Monitoring and Evaluation, a clear set of objectives need to be set. It also needs to cover all services of the municipality as evaluation cannot be done on just some of the service delivery functions of a municipality. This IDP review facilitated the development of these objectives and is looking closely to ensure that in-year monitoring are aligned with these goals, together with the performance information that is submitted during the quarterly reports of the Performance Management Process.

The following set of Pre-Determined Objectives have been identified and set as objectives as a “promise” to communities in Hessequa to be held accountable accordingly. They are sorted according to Department and secondly, the Line Function within the Department.

Hessequa Key Performance Areas	Department	Line Function	PDO#	Pre-Determined Objective	National KPA	NDP Target Area 1	NDP Target Area 2 (Additional 1)	NDP Target Area 3 (Additional 2)
Effective Communication & Participation	Corporate Services	Administration	1	Continued Management of Administrative Tasks in accordance with Service Levels agreed upon	Good Governance and Public Participation.	Fighting Corruption and Enhancing Accountability	Building a Capable State	Social Protection
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Corporate Services	Human Resource - Employment	2	Vacancy Rate <6% by July 2014 and <3% by July 2015	Municipal Transformation and Organisational Development.	Building a Capable State	Economic Infrastructure	Transforming Society and Uniting the Country
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Corporate Services	Human Resource - Organogram & Job Descriptions	3	Any vacant post to be filled within 3 months after it opened	Municipal Transformation and Organisational Development.	Building a Capable State	Economic Infrastructure	Fighting Corruption and Enhancing Accountability
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Corporate Services	Human Resource - Training	4	100% of Approved training completed in accordance with Workplace Skills Plan	Municipal Transformation and Organisational Development.	Building a Capable State	Education, Training and Innovation	Fighting Corruption and Enhancing Accountability
Maintenance and Development of all Infrastructure and Services	Corporate Services	Information & Communications Technology	5	Compliance to A.G. requirements in terms of Environmental controls by July 2014 & ensuring a systems network downtime <2% per annum	Good Governance and Public Participation.	Fighting Corruption and Enhancing Accountability	Building a Capable State	Economic Infrastructure

An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Corporate Services	Performance Management	6	Ensuring Organisational Performance >96% by July 2015	Good Governance and Public Participation.	Fighting Corruption and Enhancing Accountability	Building a Capable State	Economic Infrastructure
Maintenance and Development of all Infrastructure and Services	Corporate Services	Property Management	7	Development of Property & Contract Register by 2014 followed by continued management of contracts in accordance with Contractual Policies	Good Governance and Public Participation.	Building Safer Communities	Social Protection	Economy and Employment
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Corporate Services	Risk Management	8	Management of Risks, including OHS risks, to decrease all risks to (x) value by (year)	Good Governance and Public Participation.	Building a Capable State	Fighting Corruption and Enhancing Accountability	Building Safer Communities
Development of Safe Integrated Human Settlements	Legal Services & Community Safety	Disaster Management	9	Sustainable rendering of 24/7 Disaster Management service in Hessequa	Good Governance and Public Participation.	Building Safer Communities	Social Protection	Health Care for All
Development of Safe Integrated Human Settlements	Legal Services & Community Safety	Disaster Management	10	Continued implementation of Community Safety in Hessequa region as planned	Good Governance and Public Participation.	Building Safer Communities	Social Protection	Education, Training and Innovation
Development of Safe Integrated Human Settlements	Legal Services & Community Safety	Law Enforcement	11	To render the service sustainably without financial loss in Hessequa by 2020	Good Governance and Public Participation.	Economic Infrastructure	Building Safer Communities	Health Care for All
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management	Legal Services & Community Safety	Legal Services	12	Continued support to internal departments to minimise external legal service costs	Good Governance and Public Participation.	Fighting Corruption and Enhancing Accountability	Building a Capable State	Social Protection

Practices								
Development of Safe Integrated Human Settlements	Legal Services & Community Safety	Traffic Agency Service	13	Continued centralised service delivery on behalf of Province with an annual Audit Score higher than 90%	Good Governance and Public Participation.	Building Safer Communities	Economic Infrastructure	Building a Capable State
To Stimulate Economic Growth for the Benefit of All Communities	Socio-Economic Development & Housing	Economic Development	14	Implementation and spending of LED budget as planned through the LED Strategy	Local Economic Development (LED).	Economy and Employment	Inclusive Rural Economy	Transforming Society and Uniting the Country
Development of Safe Integrated Human Settlements	Socio-Economic Development & Housing	Integrated Human Settlements	15	Delivery of (X) low cost housing units by (year)	Local Economic Development (LED).	Social Protection	Human Settlements	Transforming Society and Uniting the Country
Human Development Initiatives to enhance the Social Wellbeing of all our Residents	Socio-Economic Development & Housing	Library Services	16	Continued service delivery in all communities and development of services to include specific rural areas and all rural schools by (year)	Local Economic Development (LED).	Inclusive Rural Economy	Education, Training and Innovation	Transforming Society and Uniting the Country
Human Development Initiatives to enhance the Social Wellbeing of all our Residents	Socio-Economic Development & Housing	Social Development	17	Complete rollout of social development projects as planned and budgeted	Local Economic Development (LED).	Social Protection	Transforming Society and Uniting the Country	Education, Training and Innovation
Maintenance and Development of all Infrastructure and Services	Technical Services	Electrical Services	18	Continued Services to all users without unnessasary interuptions in the service with an annual up-time of more than 98%	Infrastructure Development and Service Delivery.	Economic Infrastructure	Building a Capable State	Transforming Society and Uniting the Country

Maintenance and Development of all Infrastructure and Services	Technical Services	Parks	19	Ensure sufficient cemetery space for the next 20 years	Infrastructure Development and Service Delivery.	Human Settlements	Social Protection	Economic Infrastructure
Maintenance and Development of all Infrastructure and Services	Technical Services	Parks	20	Accessible Sport Facilities through 100% expenditure of Opex and Capex budgets	Infrastructure Development and Service Delivery.	Building Safer Communities	Transforming Society and Uniting the Country	Inclusive Rural Economy
To Stimulate Economic Growth for the Benefit of All Communities	Technical Services	Resorts	21	Development of all Municipal Resorts to qualify for Tourism Star Accreditation	Local Economic Development (LED).	Economy and Employment	South Africa in the Region and the World	Social Protection
Maintenance and Development of all Infrastructure and Services	Technical Services	Roads	22	100% expenditure of Opex & Capex budget for roads infrastructure	Infrastructure Development and Service Delivery.	Economic Infrastructure	Economy and Employment	Building Safer Communities
Maintenance and Development of all Infrastructure and Services	Technical Services	Sanitation	23	Attain Green Drop certification by 2015	Infrastructure Development and Service Delivery.	Economic Infrastructure	Building Safer Communities	Health Care for All
Maintenance and Development of all Infrastructure and Services	Technical Services	Solid Waste Management	24	Continued service delivery of refuse removal in urban areas in accordance with Service Standard	Infrastructure Development and Service Delivery.	Building Safer Communities	Health Care for All	
Limiting the Impact of Our Presence in the Natural Environment to Return to a Heritage of Preservation	Technical Services	Solid Waste Management	25	Development of waste recycling in all urban areas by 2020	Infrastructure Development and Service Delivery.	Economic Infrastructure	Transition to a Low-Carbon Economy	Economy and Employment
Maintenance and Development of all Infrastructure and Services	Technical Services	Stormwater	26	Development of network to negate the negative impact of stormwater in all communities, especially flood prone areas	Infrastructure Development and Service Delivery.	Building Safer Communities	Building Safer Communities	Human Settlements
Maintenance and Development of all Infrastructure and	Technical Services	Water	27	Attain Blue Drop certification by 2015	Infrastructure Development and	Economic Infrastructure	Human Settlements	Health Care for All

Services					Service Delivery.			
Development of Safe Integrated Human Settlements	Town Planning & Environmental Services	Building Control	28	Ensuring a safe built environment through the implementation & enforcement of the national building regulations act	Good Governance and Public Participation.	Human Settlements	Transition to a Low-Carbon Economy	Transforming Society and Uniting the Country
Limiting the Impact of Our Presence in the Natural Environment to Return to a Heritage of Preservation	Town Planning & Environmental Services	Environmental Affairs	29	Ensuring environmental integrity through the 100% expenditure of departmental budgets in accordance with approved environmental plans	Good Governance and Public Participation.	Education, Training and Innovation	Transition to a Low-Carbon Economy	Economy and Employment
Development of Safe Integrated Human Settlements	Town Planning & Environmental Services	Town Planning	30	Ensure Integrated development of human settlements through implementation of the Spatial Development Framework and other relevant planning legislation	Good Governance and Public Participation.	Human Settlements	Social Protection	Building Safer Communities
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Finance	Finance	31	Maintanance and Development of Reserves	Municipal Financial Viability and Management.	Building a Capable State	Economic Infrastructure	Economy and Employment
An Accountable Local Authority with a Fit for Purpose Workforce and Transparent Financial Management Practices	Finance	Finance	32	Maintaining a Liquidity Ratio of 1:1	Municipal Financial Viability and Management.	Building a Capable State	Economic Infrastructure	Fighting Corruption and Enhancing Accountability

Maintenance and Development of all Infrastructure and Services	Finance	Finance	33	Growing towards a 9% Opex Expenditure on Repairs and Maintenance	Municipal Financial Viability and Management.	Economic Infrastructure	Building Safer Communities	Economy and Employment
Maintenance and Development of all Infrastructure and Services	Finance	Finance	34	External Gearing for Capital Funding not to exceed 35%	Municipal Financial Viability and Management.	Building a Capable State	Economic Infrastructure	Building Safer Communities

## INSTITUTIONAL OVERVIEW

As part of the IDP process, all strategic interventions were considered and resulted in focused objectives as set out in die section dealing with Pre-Determined Objectives. During this time the Council also revisited the institutional layout of management. The organisational structure which was carried over from the previous council was formed due to different circumstances that caused the structure to change and narrowing the top management level from the previous structure.

Council adopted this scaled down structure with the following changes as the formal organisational layout for the top layer of management as two senior managers left the service of Hessequa Municipality within the 2012/13 financial year:

1. Administration and Human Resource not being managed by an Acting Manager anymore, but being moved to the previous Manager Legal Services and Community Safety.
2. Community Safety being assigned to the Manager Socio-Economic Development and Housing to establish a one stop “Community Services” department
3. Electromechanical Services, Water, Sewerage and Sanitation Services being added to the Roads, Stormwater, Parks and Resorts to establish a “Technical Services” department
4. Cross-cutting processes like IDP, PMS, SDBIP and Annual Report to be established as a unit in the office of the Municipal Manager

The following diagram displays the organisation layout of management.

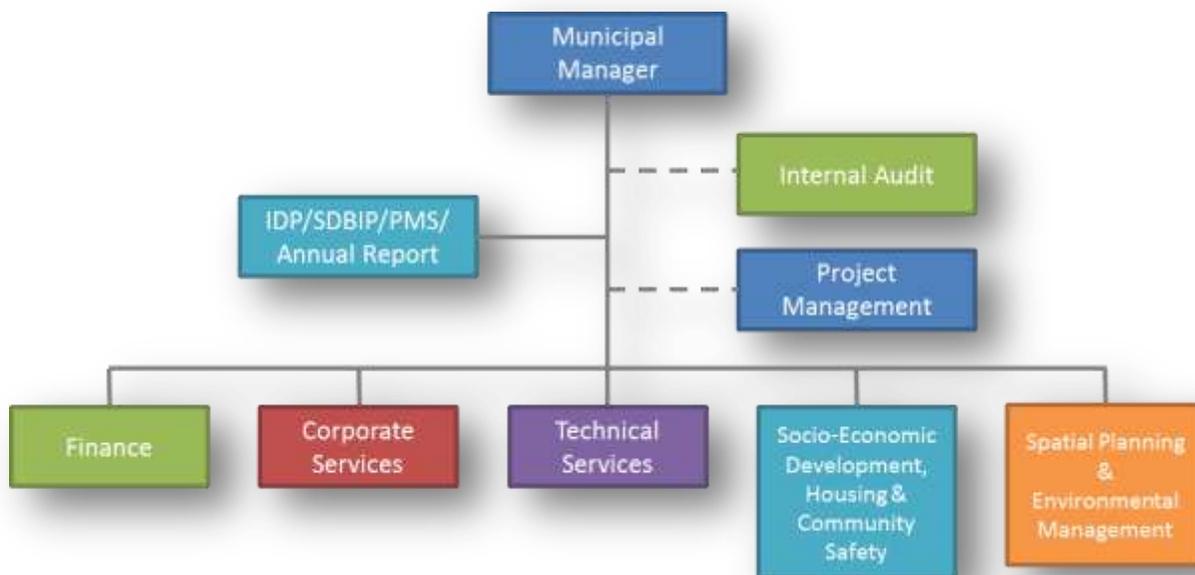


Figure 3 - Organisation Layout of Management

## ANALYSIS OF HESSEQUA – OUR PEOPLE

### ***Introduction & Important Notes***

The Hessequa Municipality is located along the southern shoreline of Africa from the Gourits River in the east to the Breede River on the western border. Towards the north the Langeberg mountain range forms a border between Hessequa and the Klein Karoo.

The geographical layout of Hessequa Municipality is one of the most unique in the Western Cape, as Hessequa is a region with many towns as a result of amalgamation that happened between 6 small municipalities in 2000. As it is titled, this profile of Hessequa is based on the 2011 national census of South Africa with the formal Supercross Datasets, provided by Statistics South Africa, of South Africa. This is the only source for the 2011 statistics used in this profile and the 2001 Supercross Datasets was used to include the 2001 census statistics. Only statistics released by Statistics South Africa through aforementioned datasets was used.

### ***Ward Based Information***

All of the statistics included in the profile referenced by ward. When electoral wards are used to sort statistics it is important to remember that ward demarcations change regularly. Due to Hessequa being a region, any changes in ward demarcations cause major changes in the statistics. Furthermore wards do not constitute of a specific community or area type, but in all cases wards include multiple communities and are it important to acquaint one with the demarcations of the wards to ensure a perfect understanding of the communities included in a certain set of ward information. On the positive side however, even though Hessequa experienced major changes in ward demarcations in 2011 from that what it was in 2006, the changes that was made returned basically to the same demarcations for 2001. This creates the perfect opportunity then to clearly compare wards with one another without considering the inclusion or exclusion of complete communities in the figures. The map on the next page clearly shows the 2001, 2006 and 2011 demarcations of wards. There are minor changes between 2001 and 2011, but all these changes are in the rural area and could only cause a fraction of a percentage variation.

During March 2013 all census information will be released in main and sub-place recodes, which means individual towns would be able to be profiled. This profile will be updated with a more detailed breakup of communities once released by StatsSA.

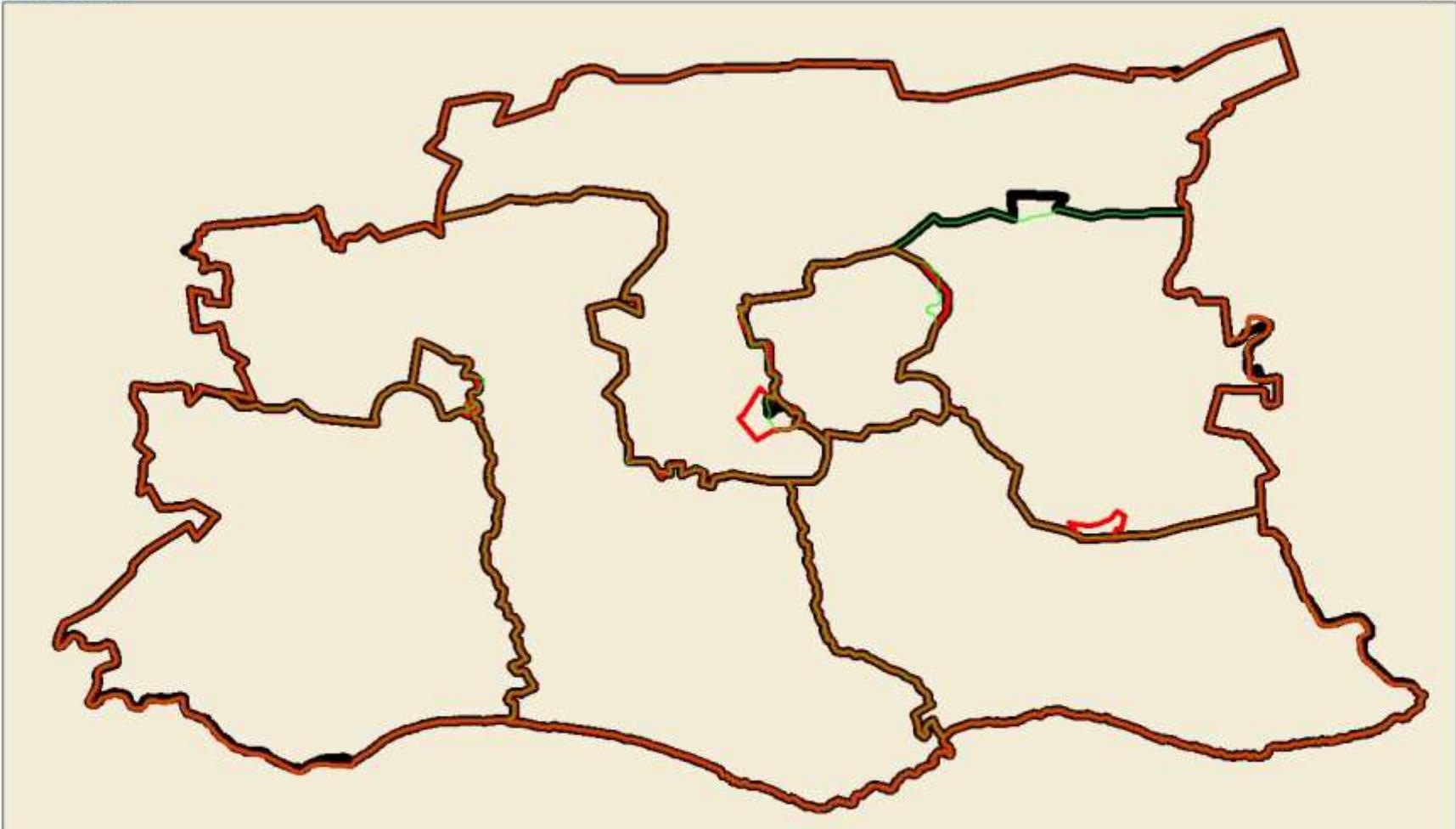
### ***Structure of the Profile***

The profile seeks to create an image of certain aspects at a time and is loosely structured by looking at the overall population profile first. Secondly a focus on the rural population that will quantify by ward the population located in non-urban environments. Thirdly the profile looks at the household profile of Hessequa which includes a services profile. The profile concludes with a detailed look at the economic profile of Hessequa based on **official definitions** and the labour force count or households.

Map of Hessequa Ward Demarcations for 2001, 2006 and 2011

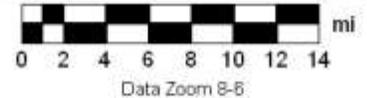
DeLORME

XMap® 7



2001 Wards	2006 Wards	2011 Wards
 All Records	 All Records	 All Records

Data use subject to license.  
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**Population Profile of Hessequa**

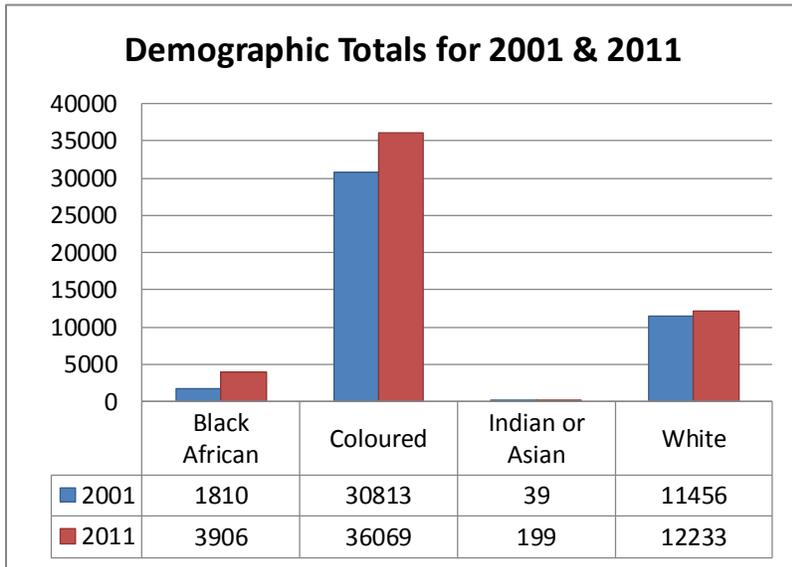


Figure 4 - Population Totals by Race

During 2007 StatsSA released a publication known as CS2007 which attempted to help municipalities with statistical information for planning as the 2001 Census information was aging rapidly. Hessequa objected strongly to the findings of this publication as it stated that the Hessequa population declined from 2001 – 2007 by almost 5%. Hessequa did not accept this

information and with the 2011 Census information being released, we are glad to see that Hessequa is growing in terms of population and not getting less.

From this chart it is clearly visible that the Coloured population is by far the largest represented people group in Hessequa with Whites second and Black African third. Indian or Asian people are scarcely represented in Hessequa.

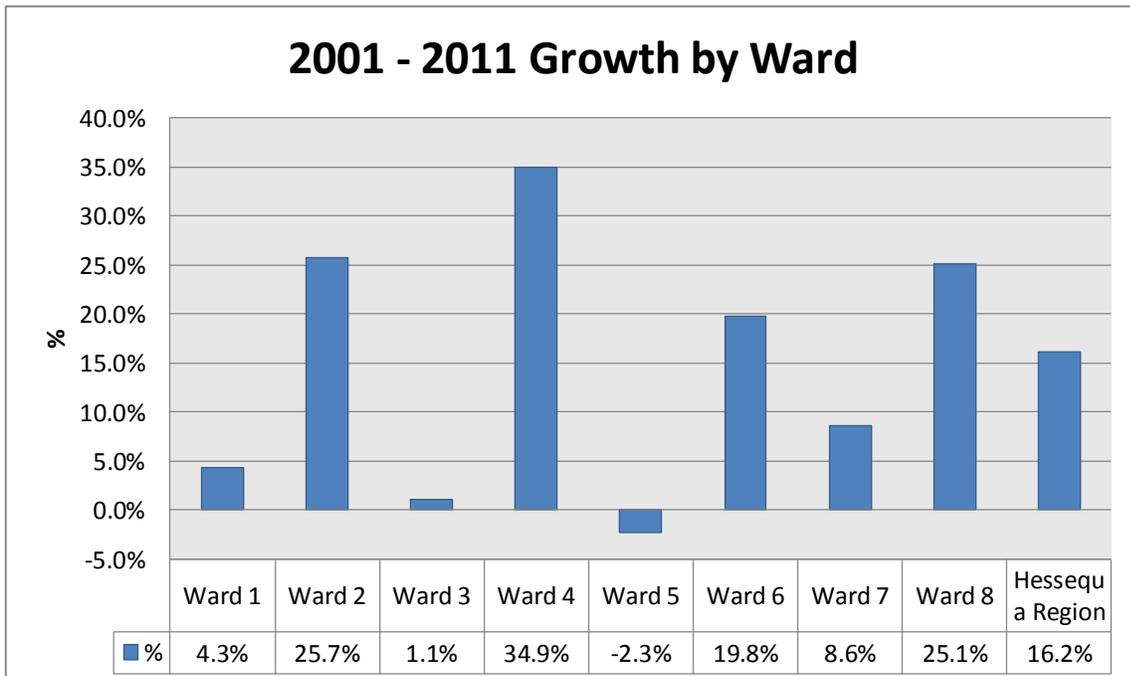


Figure 5 - Growth Rates of Wards

Figure 2 shows the growth rate of each ward with the Hessequa Region average on the right hand side of the chart.

It is clearly visible to see that Ward 4 experienced the largest growth of almost 35% since 2001 and Ward 2 second most with 25.7%. Ward 8 follows with 25.1% and on the other side of the spectrum it was surprising to see Ward 5 experiencing a negative growth of -2.3%. This seems like a somewhat problematic figure, but is confirmed in various other statistics that will be displayed in this profile. There is a close relation between Ward 4 & 5 as the ward demarcations literally divide a relatively high density community in two. With the implementation of a low-cost housing project within ward 4 which serve the community mentioned of ward 5 primarily. The IDP highlights this as an important issue which led to the IDP adopting area based planning, instead of ward based planning principles.

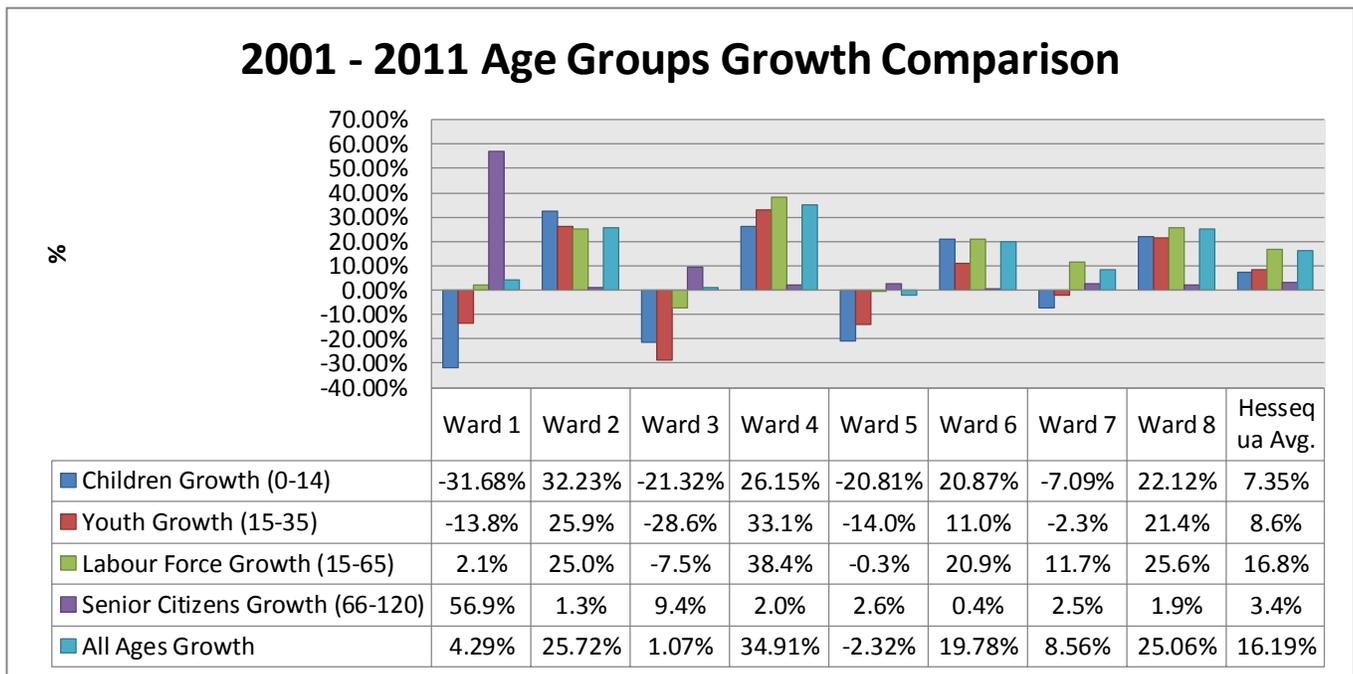


Figure 6 - Ward Growth by Age Groups

Figure 3 is very important to a region’s profile as it shows in which age group the growth or decline happened. This starts to show what changes within the economic and social structure of a given ward is taking place. Please note that Figure 3 does not imply that children or senior citizens got more or less. It shows in which age group the growth or decline was the strongest or weakest. All the above mentioned information includes rural and urban areas. The following summary for each ward will reflect the findings of Figure 3.

**Ward1 – Stilbaai, Melkhoutfontein, Gouritsmond & Rural Area**

- Ward 1 experienced a below average growth in general and a sharp decline in ages 0 – 35. The labour force in general grew by 2.1%, which implies that the growth in the labour force was

primarily located between the ages of 35 – 65. Ward one shows the highest categorical growth in Hessequa with a growth of 56.9% in the senior citizen category.

- Ward 2 experienced an above average growth in general with the lowest growth in senior citizens in contrary to ward 1. It is important to note the large growth in children below the age of 14 in ward 2. This growth impacts various aspects of government services such health and education.
- Ward 3 showed a very slow growth rate over the last 10 years. A sharp decline in children and youth, as well as decline in residents of ages 36-65. The second highest growth rate for senior citizens, was recorded in Ward 3.
- Ward 4 displayed the highest growth in all of Hessequa over the last 10 years which is primarily in the labour force category. With Ward 4 being a mostly rural ward and including a low cost housing area of Heidelberg this could be due to various factors.
- Ward 5 is the only ward in Hessequa that showed an average growth that is negative over the last 10 years. Once again it is important to note that many people who would be classified as “backyard dwellers” would have moved to ward 4 due to the low-cost housing project. This creates a problem for planning as it is a high density community being cut in half by the demarcation of electoral wards.
- Ward 6 experienced a growth which is very close to the Hessequa average. It recorded the lowest growth in senior citizens and interestingly enough, a relatively low growth in the youth age group(ages 15-35). Ward 6 also consists of a relatively high density of rural population, ward 6 suffered the largest decline in rural population of all the wards in percentage. See page **Error! Bookmark not defined.** for more detail concerning rural/urban comparisons.
- Ward 7 counted a less than average growth from 2001-2011. The growth category is primarily the more senior component of the labour force. It recorded a negative growth for children and youth.
- Ward 8 experienced above average growth, except for senior citizens. It is interesting to note that the growth pattern is consistent over children, youth and the 36-65 age group of the labour force. This is a possible indication that the communities in ward 8 is stabilised and not experiencing so much migration as other communities in Hessequa.

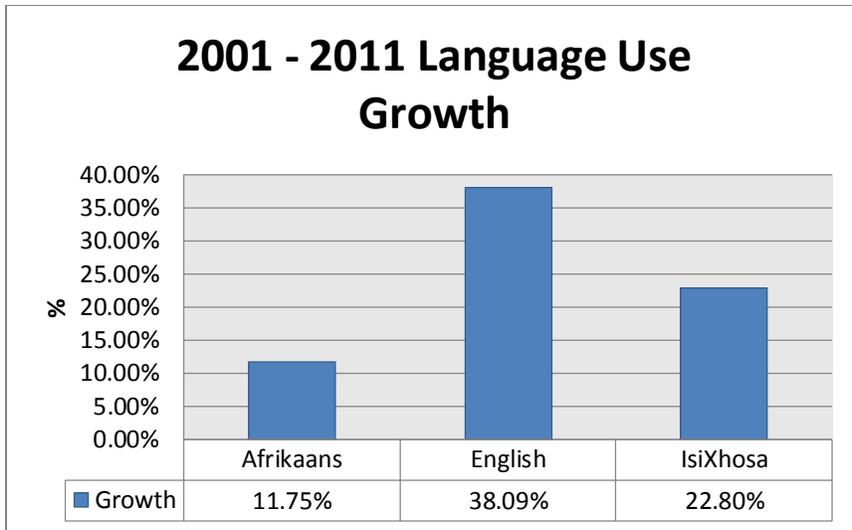


Figure 7 - Language Use Growth

Figure 4 shows the language growth in Hessequa, comparing the 3 main languages used in Hessequa. Figure 5 shows the percentage language use in Hessequa in relation to the other 8 official languages of South Africa (Other). Clearly Afrikaans is the language spoken the most to a total of 90%. English growing to 4% and IsiXhosa 2%.

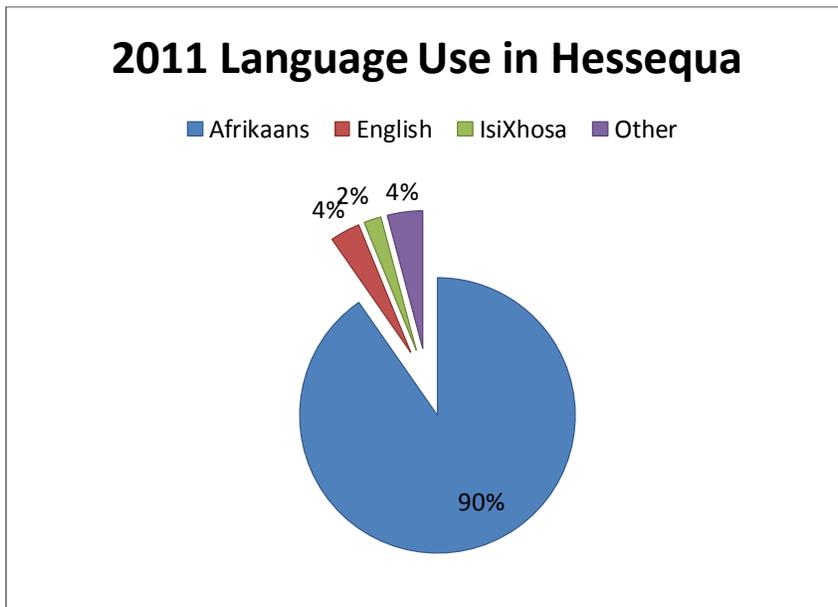
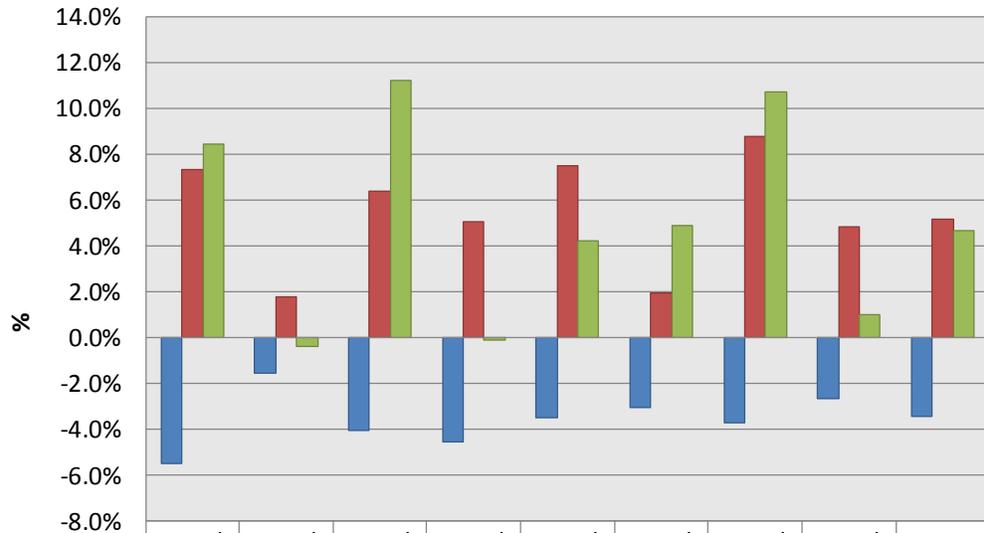


Figure 8 - Language Use Percentage

## 2001 - 2011 % Growth in Educational Levels per Ward



	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8	Total
■ No schooling	-5.5%	-1.5%	-4.1%	-4.5%	-3.5%	-3.0%	-3.7%	-2.7%	-3.4%
■ Grade 12 / Std 10 / Form 5	7.4%	1.8%	6.4%	5.1%	7.5%	1.9%	8.8%	4.8%	5.2%
■ All Other Total	8.5%	-0.4%	11.2%	-0.1%	4.3%	4.9%	10.7%	1.0%	4.7%

**Figure 9 - Education Levels Growth**

Education is one of the most important statistical analysis indicators to come to grips with what is going on in a community's well-being. Hessequa experienced a positive shift towards better educational levels per applicable person during the last 10 years across the region, however it is important to mention a fractional decline in education levels in Ward 2. This is really troublesome as it needs to be investigated as it is an isolated statistic within the region. The key indicators for educational levels are No Schooling & Grade 12(Matric). As development requires, no schooling should be in decline and the amount of children completing school should be getting better. This is the fact in Hessequa with an average growth of 5.2% in children finishing Grade 12.

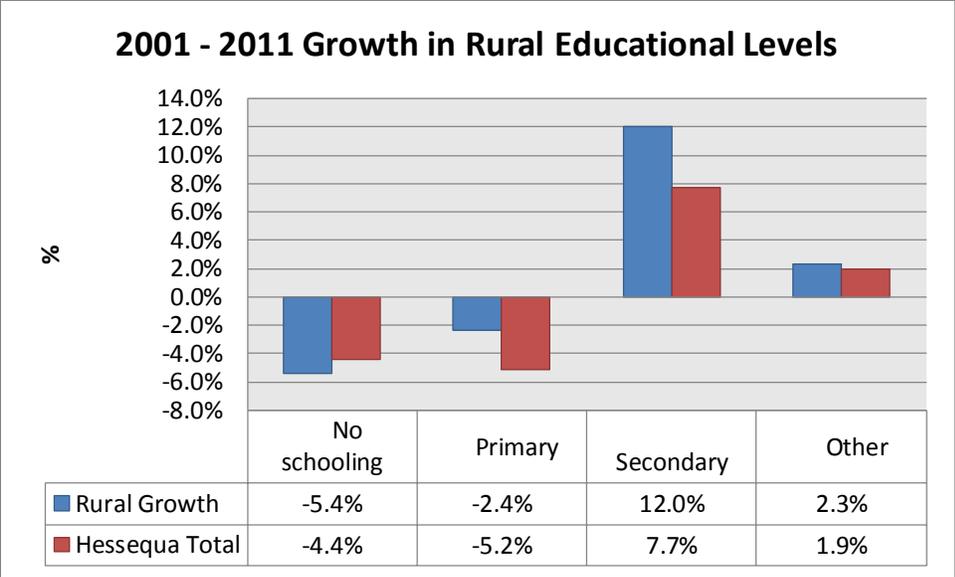


Figure 10 - Rural Educational Levels Growth

An important statistic to look at is the difference between the educational levels of people in the urban areas and that of those in the rural areas. Figure 7 clearly shows how far the rural resident in general is behind the urban resident who is exposed to much more opportunities. This information should be the starting point for various services of government to consider. In general one could say that the rural area are about 6-8 years behind in development to that of urban residents and is shown in Figure 8.

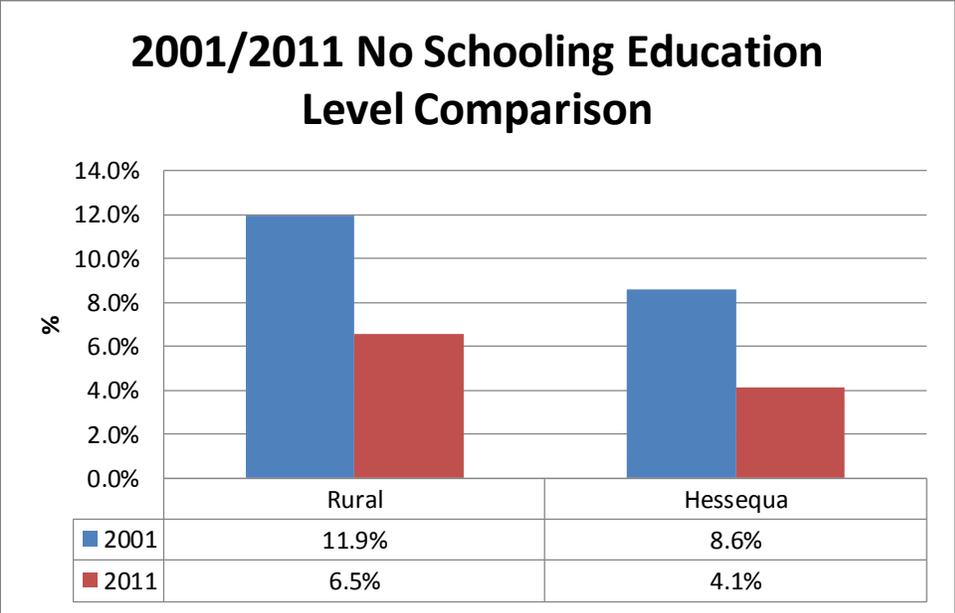


Figure 11 - Urban / Rural No Schooling Comparison

**Rural Profile**

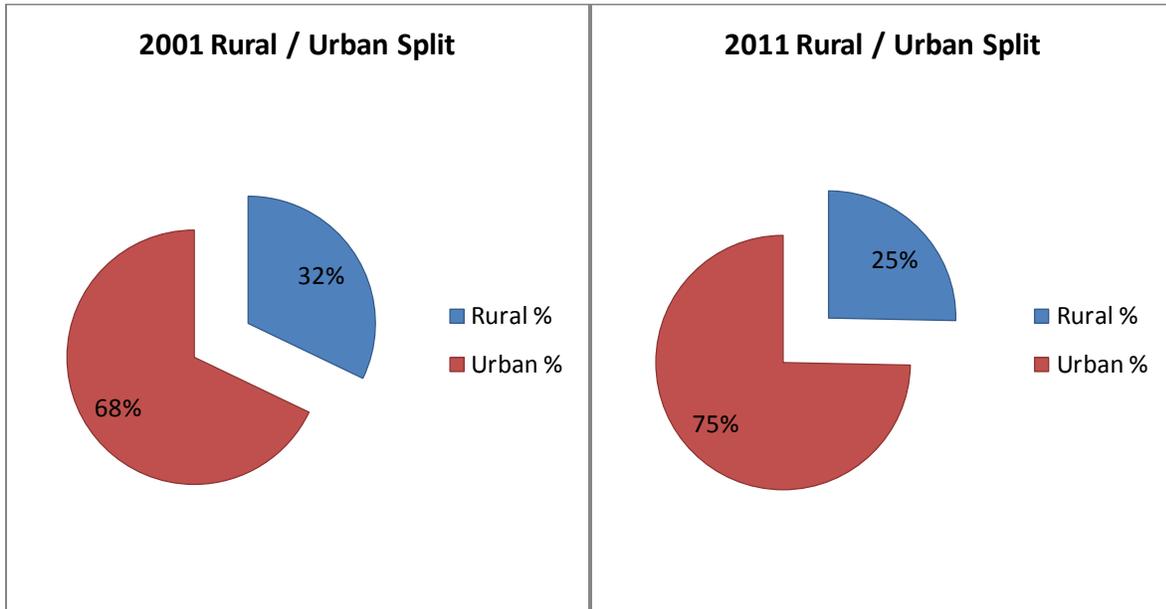


Figure 12 – 2001 & 2011 Rural / Urban Split

In Figure 9 we see the drastic decline in rural population from 2001 to 2011. The question remains, where are these people going? The general assumption is that when people leave the farm, they end up in informal structures in an urban environment and needs to be helped through the low cost housing schemes of the municipality. Other datasets have indicated that labour absorption in the commercial agricultural sector almost halved over the last 10 years. The population statistics really proves this to be true.

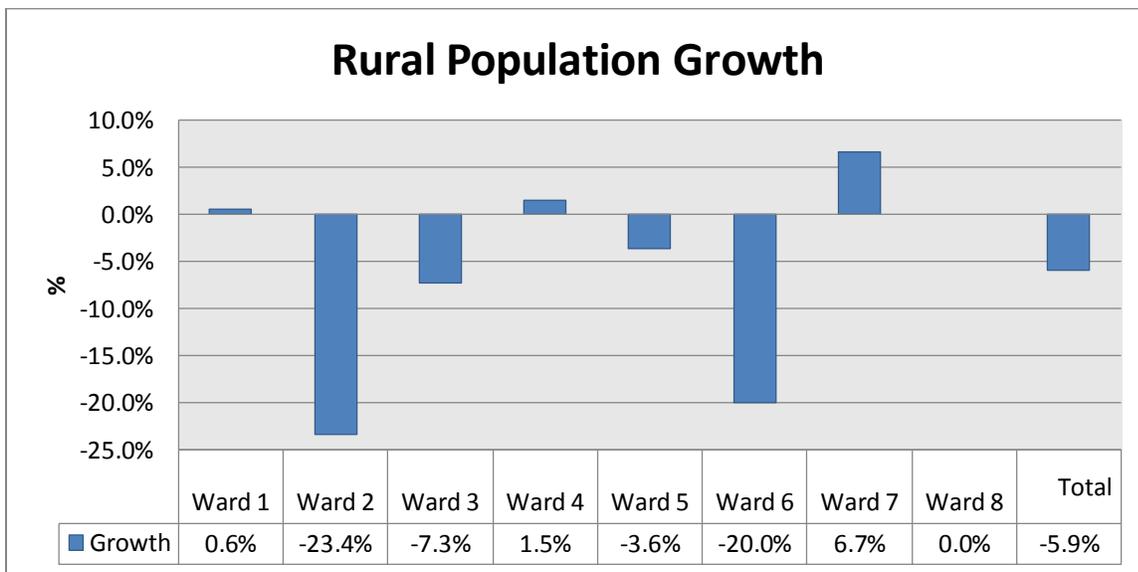


Figure 13 - Rural Population Growth

Figure 10 shows the growth in rural areas. Hessequa in general shows a negative growth of -5.9% in the rural areas. Ward 7 alone shows a reasonable amount of growth, but still far below the general growth rate of Hessequa of 16.2%

Table 1 gives a detailed breakup of gender and total population per ward for the rural and urban areas. The important column in Table 1 is the growth figures. We can see the negative growth of wards 2 and 6.

**Table 1- Rural/Urban Population Figures per Ward**

Urban / Rural Residents Split & Growth													
	Farms		Small Holdings		Rural Total		Total		Rural %		Growth	Urban %	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011		2001	2011
<b>Male</b>													
Ward 1	943	954	0	0	943	954	3159	3273	29.9 %	29.1 %	-0.7%	70.1%	70.9%
Ward 2	732	586	364	0	1096	586	2784	3677	39.4 %	15.9 %	-23.4%	60.6%	84.1%
Ward 3	1530	1394	63	0	1593	1394	2389	2285	66.7 %	61.0 %	-5.7%	33.3%	39.0%
Ward 4	918	1394	0	73	918	1467	2745	4249	33.4 %	34.5 %	1.1%	66.6%	65.5%
Ward 5	0	0	183	76	183	76	2714	2766	6.7%	2.7%	-4.0%	93.3%	97.3%
Ward 6	919	597	405	218	1324	815	2829	3275	46.8 %	24.9 %	-21.9%	53.2%	75.1%
Ward 7	542	949	275	220	817	1169	2699	3146	30.3 %	37.2 %	6.9%	69.7%	62.8%
Ward 8	0	0	0	0	0	0	2084	2854	0.0%	0.0%	0.0%	100.0 %	100.0%
<b>Total</b>	5584	5875	1290	587	6874	6462	21403	25525	32.1 %	25.3 %	-6.8%	67.9%	74.7%

Continued on next page.

Female													
Ward 1	825	931	0	0	825	931	3296	3471	25.0%	26.8%	1.8%	75.0%	73.2%
Ward 2	716	527	316	0	1032	527	2777	3808	37.2%	13.8%	-23.3%	62.8%	86.2%
Ward 3	1458	1375	36	0	1494	1375	2398	2554	62.3%	53.8%	-8.5%	37.7%	46.2%
Ward 4	818	1247	0	79	818	1326	2759	4207	29.6%	31.5%	1.9%	70.4%	68.5%
Ward 5	0	0	193	85	193	85	3197	3011	6.0%	2.8%	-3.2%	94.0%	97.2%
Ward 6	912	589	159	200	1071	789	2719	3641	39.4%	21.7%	-17.7%	60.6%	78.3%
Ward 7	562	870	275	192	837	1062	3070	3163	27.3%	33.6%	6.3%	72.7%	66.4%
Ward 8	0	0	0	0	0	0	2499	3263	0.0%	0.0%	0.0%	100.0%	100.0%
<b>Total</b>	<b>5292</b>	<b>5539</b>	<b>979</b>	<b>556</b>	<b>6271</b>	<b>6095</b>	<b>22716</b>	<b>27117</b>	<b>27.6%</b>	<b>22.5%</b>	<b>-5.1%</b>	<b>72.4%</b>	<b>77.5%</b>
Total													
Ward 1	1768	1885	0	0	1768	1885	6455	6744	27.4%	28.0%	0.6%	72.6%	72.0%
Ward 2	1449	1113	679	0	2128	1113	5560	7485	38.3%	14.9%	-23.4%	61.7%	85.1%
Ward 3	2989	2770	99	0	3088	2770	4787	4839	64.5%	57.2%	-7.3%	35.5%	42.8%
Ward 4	1736	2642	0	152	1736	2794	5504	8456	31.5%	33.0%	1.5%	68.5%	67.0%
Ward 5	0	0	376	161	376	161	5911	5777	6.4%	2.8%	-3.6%	93.6%	97.2%
Ward 6	1831	1186	564	418	2395	1604	5548	6916	43.2%	23.2%	-20.0%	56.8%	76.8%
Ward 7	1104	1819	550	412	1654	2231	5769	6309	28.7%	35.4%	6.7%	71.3%	64.6%
Ward 8	0	0	0	0	0	0	4584	6117	0.0%	0.0%	0.0%	100.0%	100.0%
<b>Total</b>	<b>10876</b>	<b>11414</b>	<b>2269</b>	<b>1143</b>	<b>13145</b>	<b>12557</b>	<b>44118</b>	<b>52642</b>	<b>29.8%</b>	<b>23.9%</b>	<b>-5.9%</b>	<b>70.2%</b>	<b>76.1%</b>

**Household Profile of Hessequa**

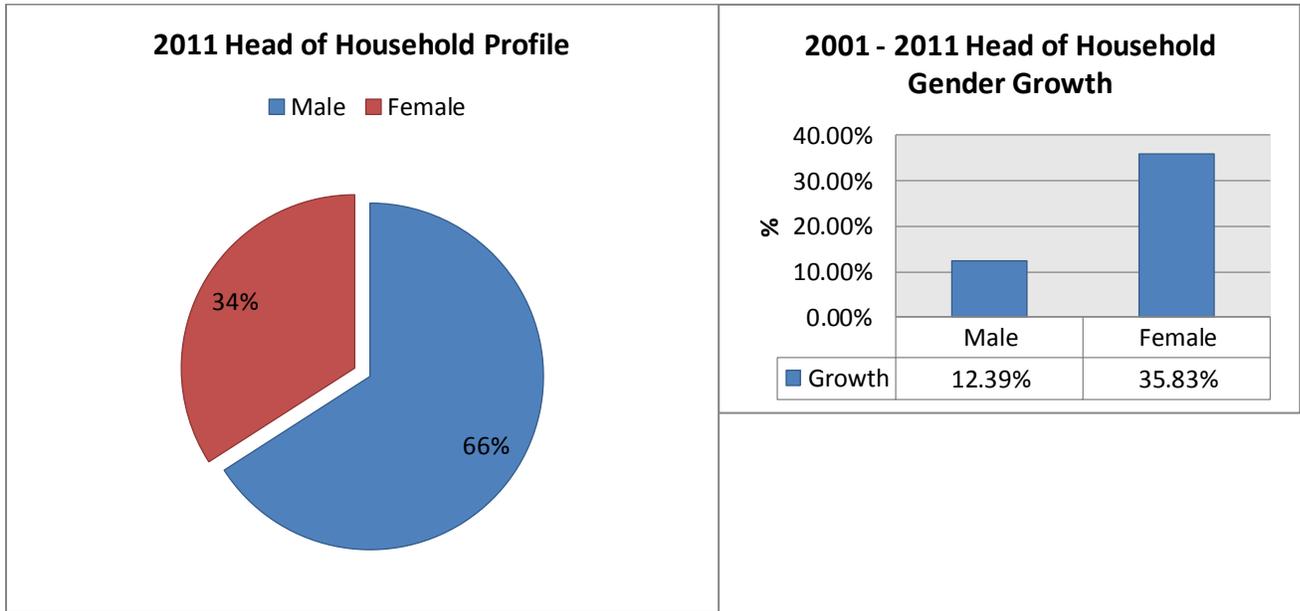


Figure 14 - 2011 Head of Household Profile & Growth Profile

Figure 11 contains information about the 2011 Head of Household Gender and we see that 66% of all households are headed by Males and 34% by Females. The adjoining figure displays the growth between Male and Female headed households and a significant growth in Hessequa was experienced in the number of Female Headed Households. The various factors influencing this growth can be debated; however this profile chooses not to read anything into the statistics.

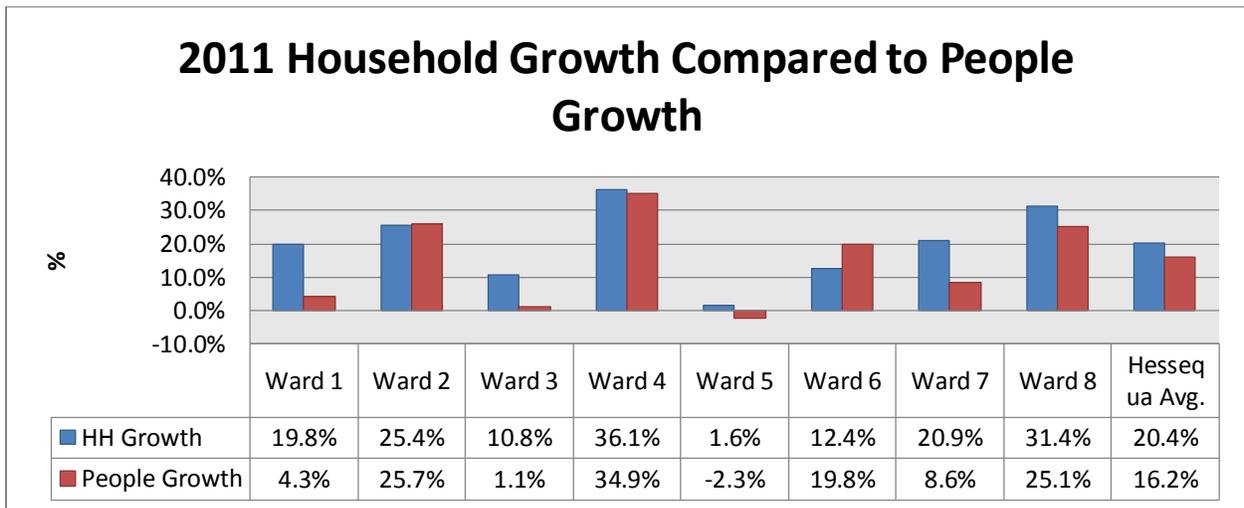


Figure 15 - Household Growth by Ward

Figure 12 compares the growth of population with the growth in households. Individual wards can immediately be identified where the amount of households grew notably. This would then be Ward 2, 4, 7 and 8. These are all wards where major low-cost housing projects influenced the way communities

grew. With ward 4 and 5 closely related, the migration of population is clearly visible between these wards.

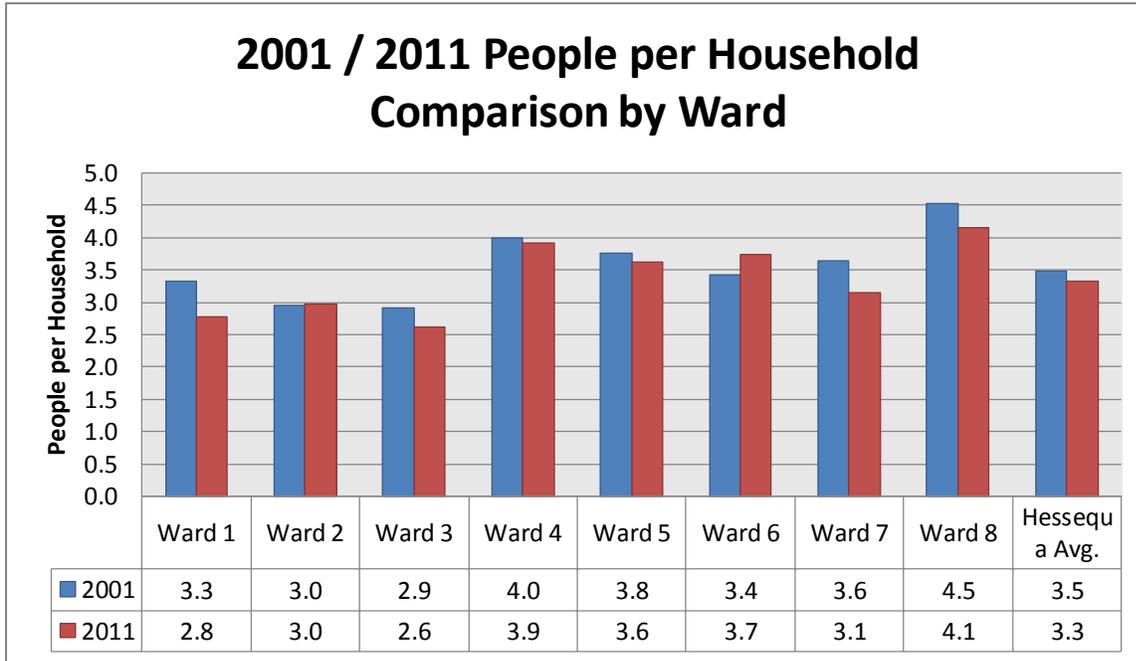
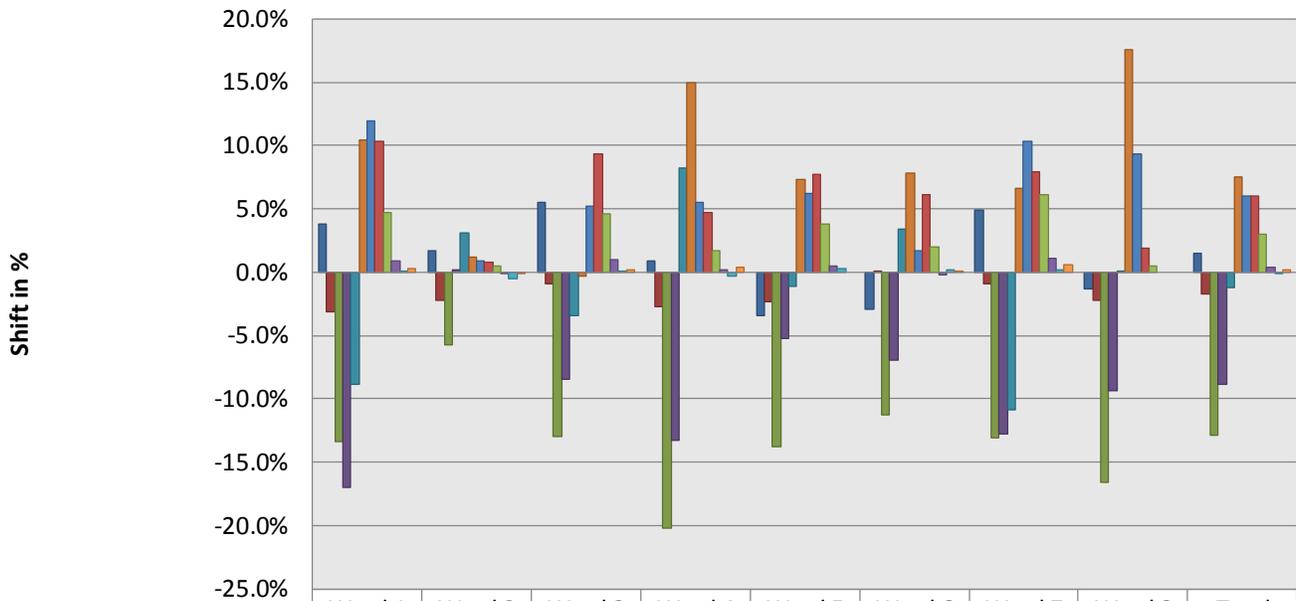


Figure 16 - Average Residents per Household per Ward

To continue with the comparison between population and households, the average amount of people per household is also an important indicator to look at a community to understand the changes within any given area. Two wards do not show positive growth. Ward 2 indicates no growth or decline at all. It remains in 2011 on 3 residents per household in general, which is lower than the Hessequa average. Ward 6 experienced strong population growth, but not equal growth in households which results in an increase in the average household population from 3.4 to 3.7. A possible cause for this, when compared to other information in this profile, is that the immense movement from people from the rural area into an urban environment within the borders of ward 6. Ward 6 is surrounded geographically by the rural areas of ward 7, which would naturally result in people moving to ward 6 or 8 as the urban area of ward 7 mostly consists of middle to high income communities. For the region of Hessequa the average people per household decreased from 3.5 to 3.3.

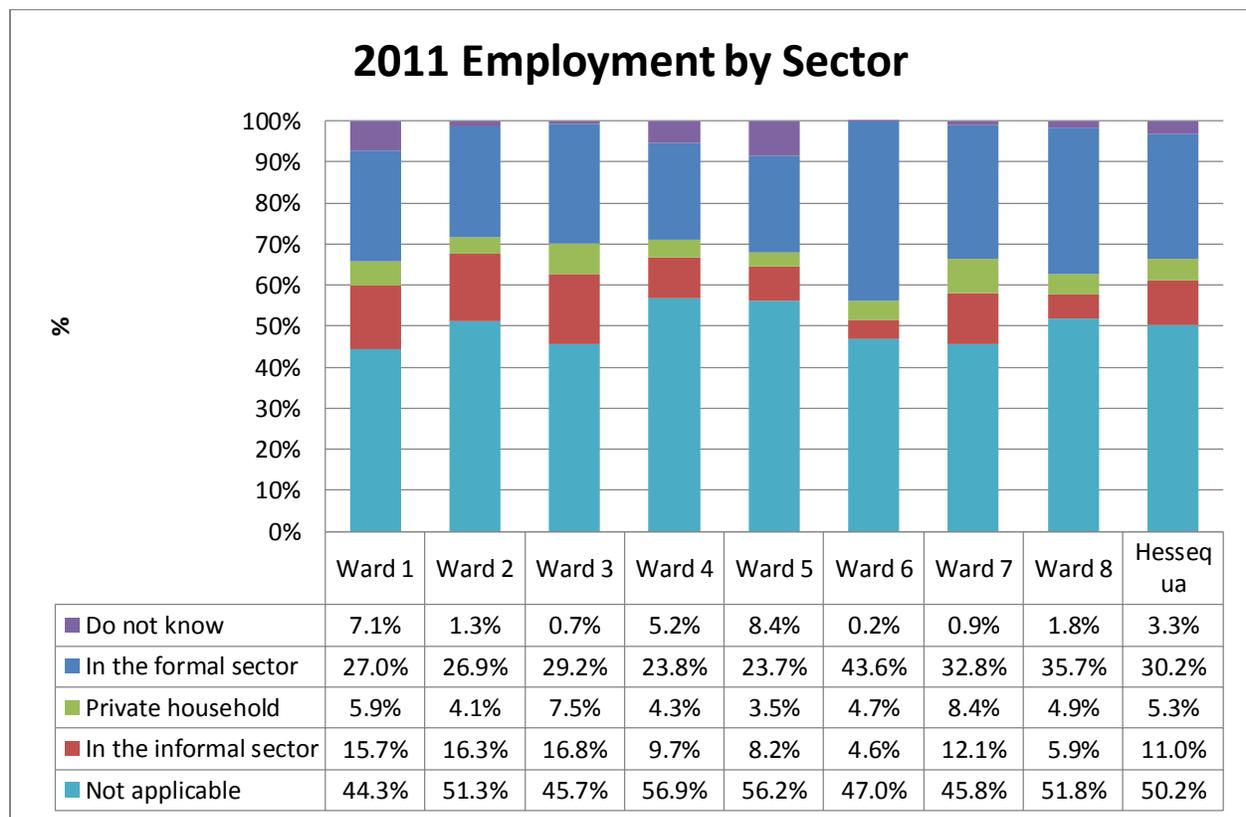
### 2001 - 2011 Shift in Annual Household Income (Inflation not Considered)



	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8	Total
No income	3.8%	1.7%	5.5%	0.9%	-3.5%	-2.9%	4.9%	-1.3%	1.5%
R1 - R4 800	-3.1%	-2.2%	-0.9%	-2.7%	-2.4%	0.0%	-1.0%	-2.2%	-1.7%
R4 801 - R 9 600	-13.4%	-5.7%	-13.0%	-20.2%	-13.8%	-11.2%	-13.0%	-16.6%	-12.8%
R9 601 - R 19 200	-17.0%	0.2%	-8.5%	-13.3%	-5.2%	-6.9%	-12.8%	-9.3%	-8.8%
R19 201 - R 38 400	-8.9%	3.1%	-3.4%	8.3%	-1.1%	3.4%	-10.9%	0.0%	-1.2%
R38 401 - R 76 800	10.4%	1.2%	-0.3%	15.0%	7.4%	7.8%	6.6%	17.6%	7.6%
R76 801 - R153 600	12.0%	0.9%	5.2%	5.5%	6.3%	1.7%	10.3%	9.3%	6.0%
R153 601 - R307 200	10.3%	0.8%	9.4%	4.7%	7.7%	6.1%	8.0%	1.9%	6.0%
R307 201 - R614 400	4.7%	0.5%	4.6%	1.7%	3.8%	2.0%	6.1%	0.5%	3.0%
R614 401 - R1 228 800	0.8%	0.0%	1.0%	0.2%	0.5%	-0.2%	1.1%	0.0%	0.4%
R1 228 801 - R2 457 600	0.0%	-0.5%	0.0%	-0.3%	0.2%	0.2%	0.2%	0.0%	0.0%
R2 457 601 and more	0.2%	0.0%	0.2%	0.4%	0.0%	0.1%	0.5%	0.0%	0.2%

**Figure 17 - Annual Household Income**

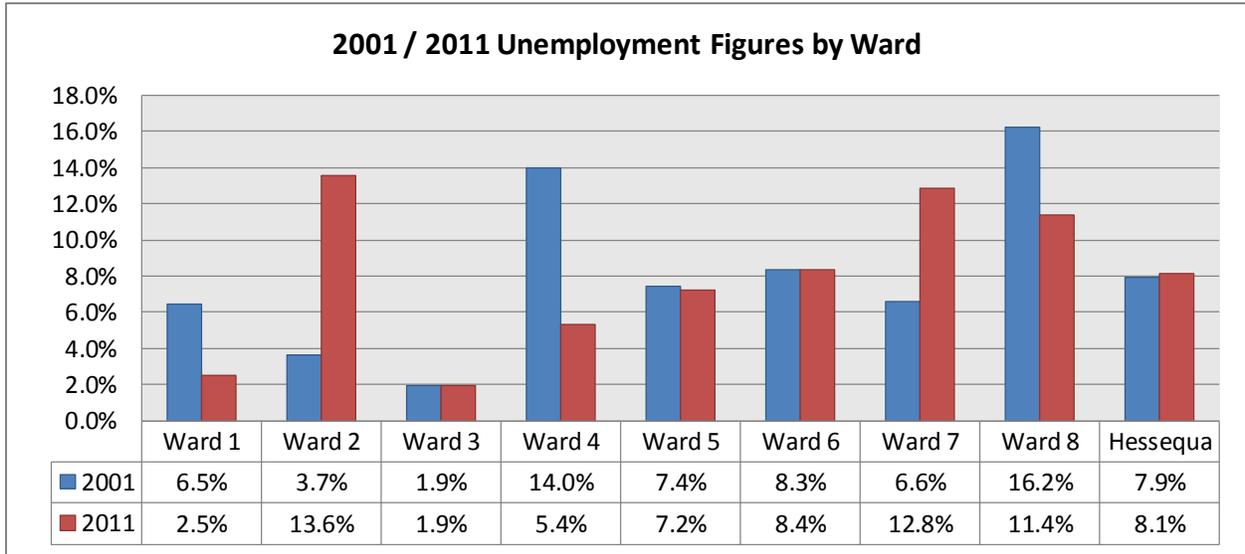
The figure above does a comparison of annual household income between all households per ward, and in total, for 2001 and 2011. It is important to note that this figure does not represent the total amount per category, but rather the change in contribution to a particular income category. If a specific category's value is negative, it implies that the contribution in terms of households within that given category have decreased since 2001. The most notable change is the decrease in average households living in the smaller income categories and the larger portion of households who are forming part of the larger income categories. The graph in general shows a shift in all households towards the larger income categories. Even though the general picture looks good for Hessequa as the average household income have improved, this chart also shows a bit of a negative reality. Wards 1, 3 and 7 showed a very strong growth in the amount of households which do not have an annual income. The stranger aspect of this is that these 3 wards would in general always be considered to be the "higher income" wards. Secondly it can also be interpreted as a symptom of a semi-stagnant economy. It shows that those who do have a form of income have developed over the last 10 years, but it also shows the reality that new labour opportunities are not created.



**Figure 18 - Employment by Sector**

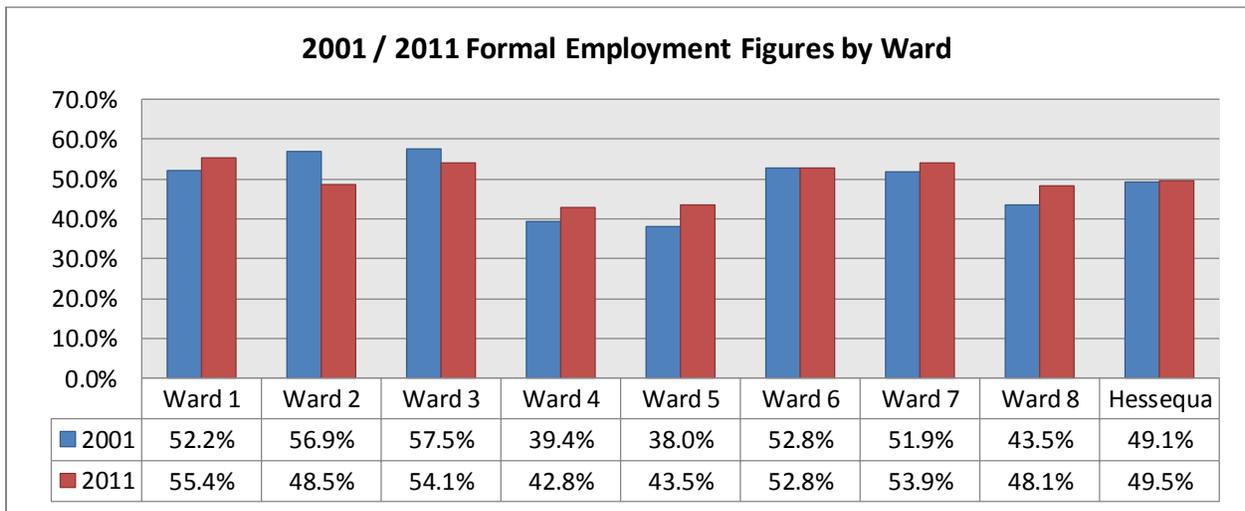
The above figure shows the employment percentages by employment sector. The low percentages in the formal sector is troublesome to note. A second issue that needs attention is the vast percentages of

people represented by the “not applicable” category. Also important to note is that these figures are all based on the official definitions of employment.



**Figure 19 - Unemployment Figures, Official Definition**

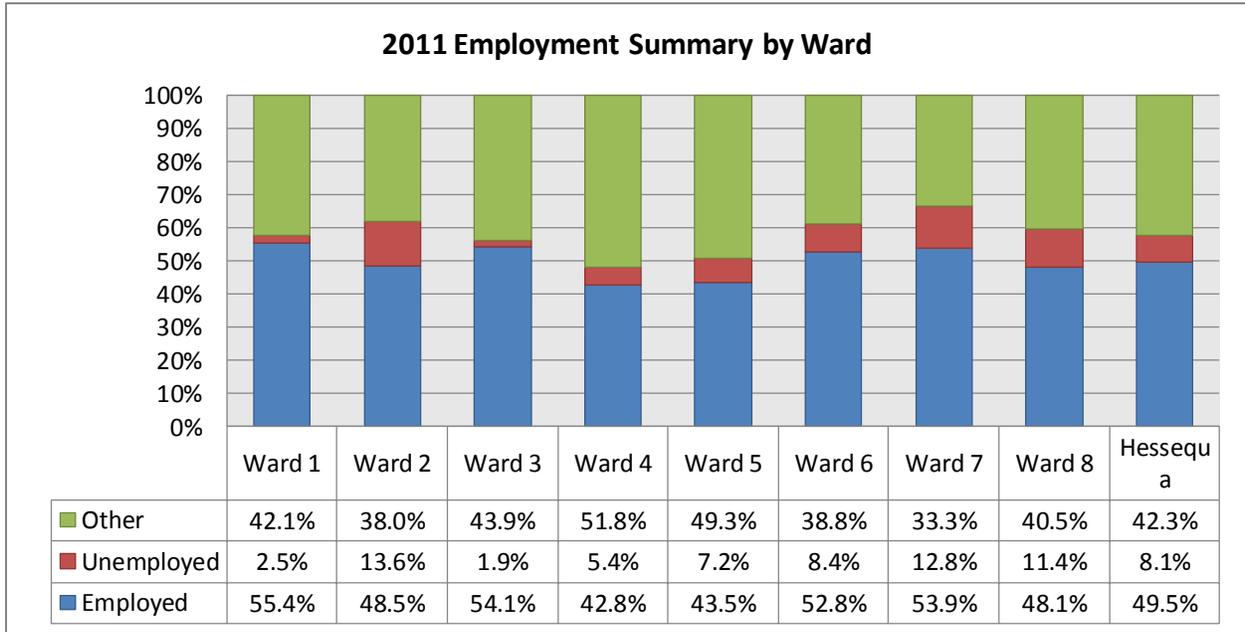
The official definition of unemployment could sometimes be a bit of a controversial subject, but these figures show clearly that in Hessequa unemployment went up in general to 8.1%. Ward 4 showed an immense decline in unemployment, which is comforting to see, but in ward 2 and 7 these figures are troublesome to note a strong growth in unemployment.



**Figure 20 - Formal Employment**

The figure above shows the percentage of population per ward who is formally employed, irrelevant of which sector. This seems to be in contrast to the unemployment growth and decline on the previous page, which is a clear indicator of economic activity which does not form part of the formal economy. An informal economy that might possibly be employing people, or being economic inactive. The following

figure shows this phenomenon in a more summarised manner. Vast amount of people within the communities of Hessequa cannot be categorised as employed or unemployed.



**Figure 21 - Employment Summary by Ward**

One of the most important outcomes of this profile is Figure 31. It highlights the inefficiency of the conventional “employed/unemployed” measurement. It shows that more than 42% of the labour force cannot be categorised either employed, or unemployed.

There are various factors that are playing a role in these figures. Social grants are possibly the biggest factor, but another phenomenon is that of informal trade. The so-called “informal economy” has become a method of survival for households to secure their own livelihood.

As a result of this inefficiency of measurement, a well-defined project to quantify the reality of the informal economy is advised.

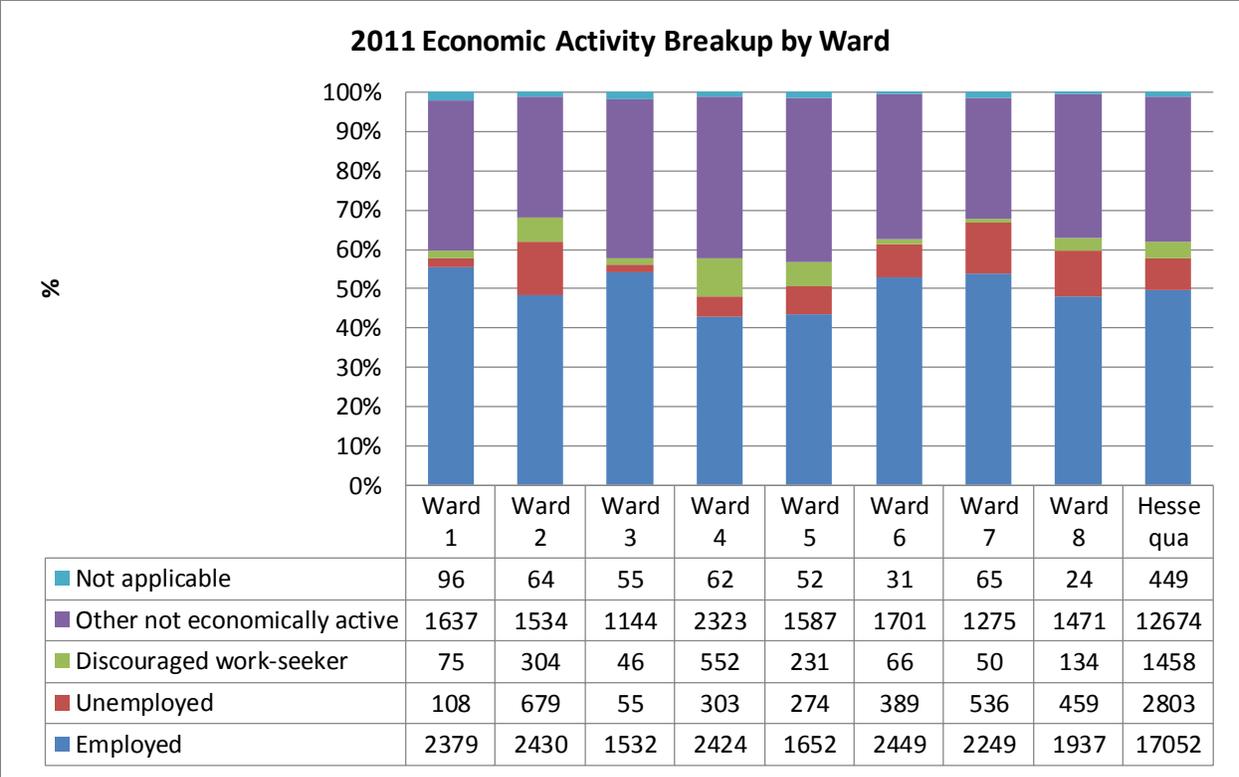


Figure 22 - Economic Activity by Ward

It is important to note the breakup of the composition in economic activity. As councillors and officials, many excuses and complaints are heard about the conditions in which people live. The fact is however, when a clear framework is given, such as the formal definitions of employed, unemployed, etcetera, it is hard to argue the statistics coming from a census, or even a statistically sound sample survey. There are various factors influencing this reality which is displayed in the figure above, but this profile does not seek to engage these factors, but would like to create the platform for robust debate concerning this information and the factors which shape our communities.

**Household Tenure Status**

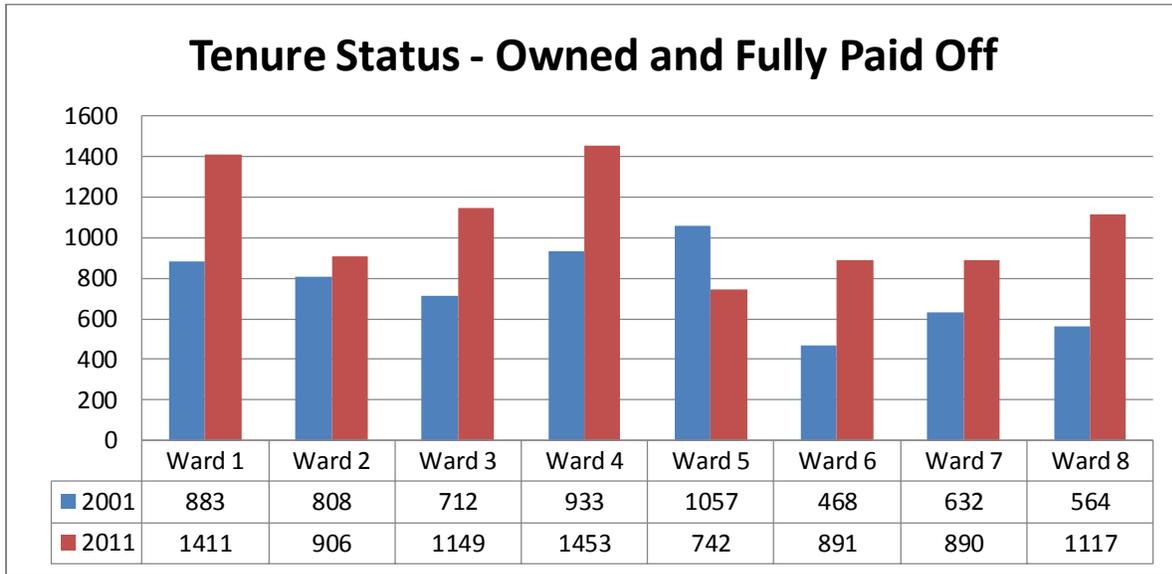


Figure 23 - Tenure Status, Owned and Paid Off Fully

The figures containing information of tenure status can be confusing, as it does not represent percentages that can be compared to one another. It is important to then look at each figure on its own and look at the amounts. The graphs only display the numbers graphically and does not illustrate the statistics within the context of the other indicators listed in this section. Figure 14 shows that the amount of fully paid off households increased in every ward throughout Hessequa region.

Figure 15 shows the amount of people living in a residential unit which is owned but not yet paid off. The statistics differ depending on ward.

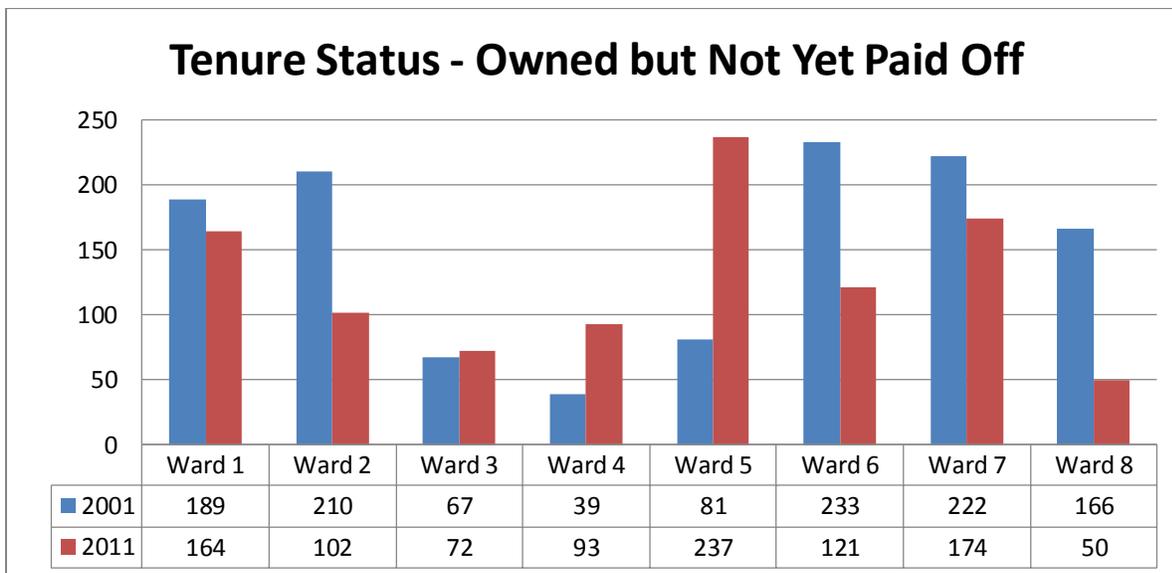


Figure 24 - Tenure Status, Owned but not yet Paid Off

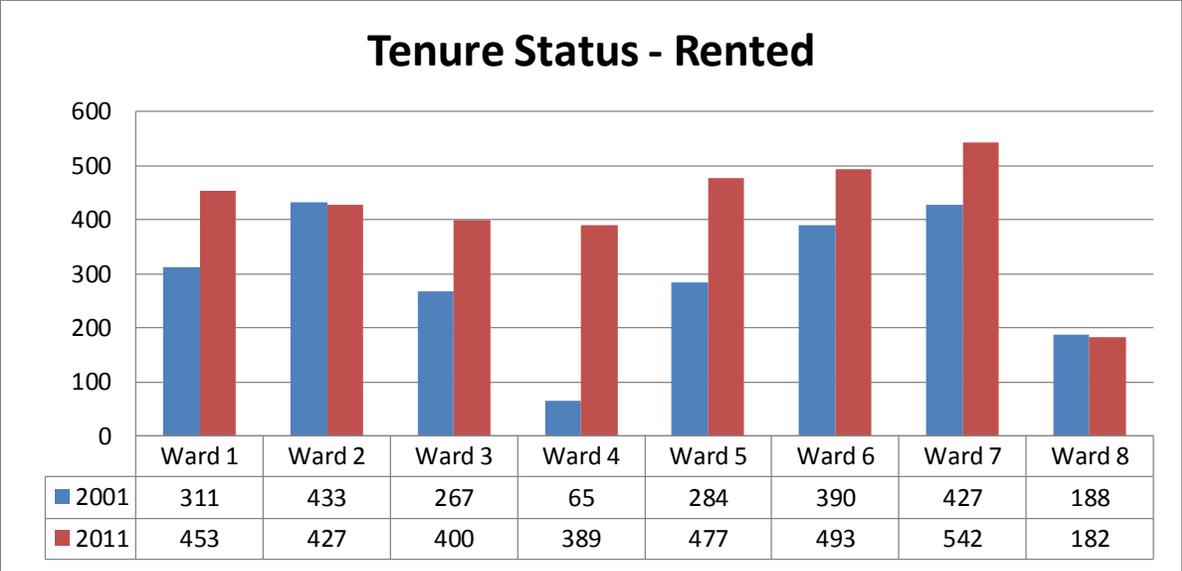


Figure 25 - Tenure Status - Rented

Figure 16 shows the amount of households making use of rental units. Once again we see the impact of a population that is growing in general with a sharp increase in demand for rental units. However this is not true for communities in Ward 8 and 2. This could be due to 2 very large low-cost housing projects being completed in these wards with people receiving ownership of their houses.

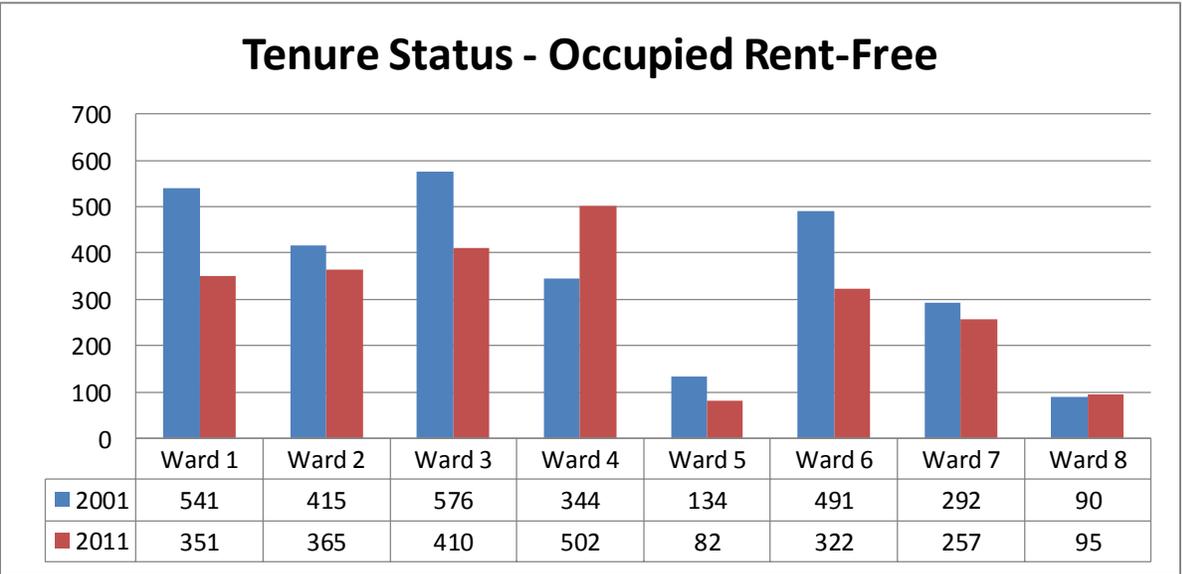


Figure 26 - Tenure Status - Occupied Rent Free

Figure 17 shows the amount of households being occupied by residents without paying any rent. The amount differs vastly between wards with wards 4 being affected the most.

### Household Services Profile of Hessequa

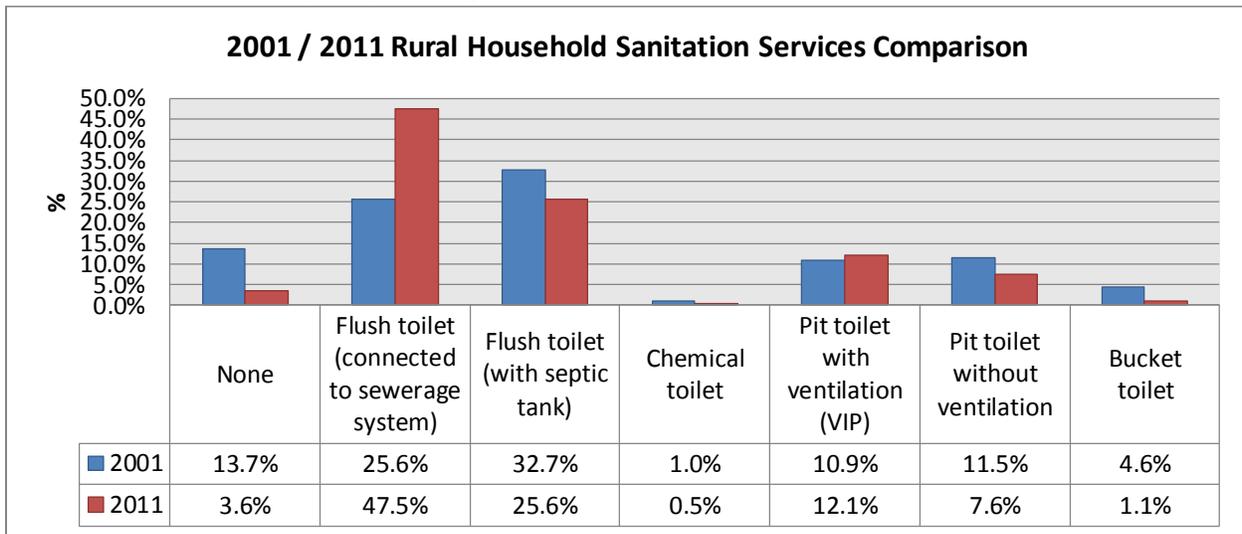


Figure 27 - Rural Household Sanitation Services

As already mentioned, Hessequa consists of large rural areas and would it be important to separate the services profile between rural and urban. Many times the services profile differs vastly between urban and rural areas and if it is not separated, the general standard of service delivery, in urban areas specifically, would be negatively affected. On the other hand it might be interpreted that most areas do not have service delivery issues, but the rural households in general are far worse off than the average urban household in terms of services rendered. We do however see a vast improvement in rural sanitation services from 2001. The amount of households making use of a flush toilet system doubled and the amount of households making use of illegal bucket systems are less than a quarter of what was in 2001

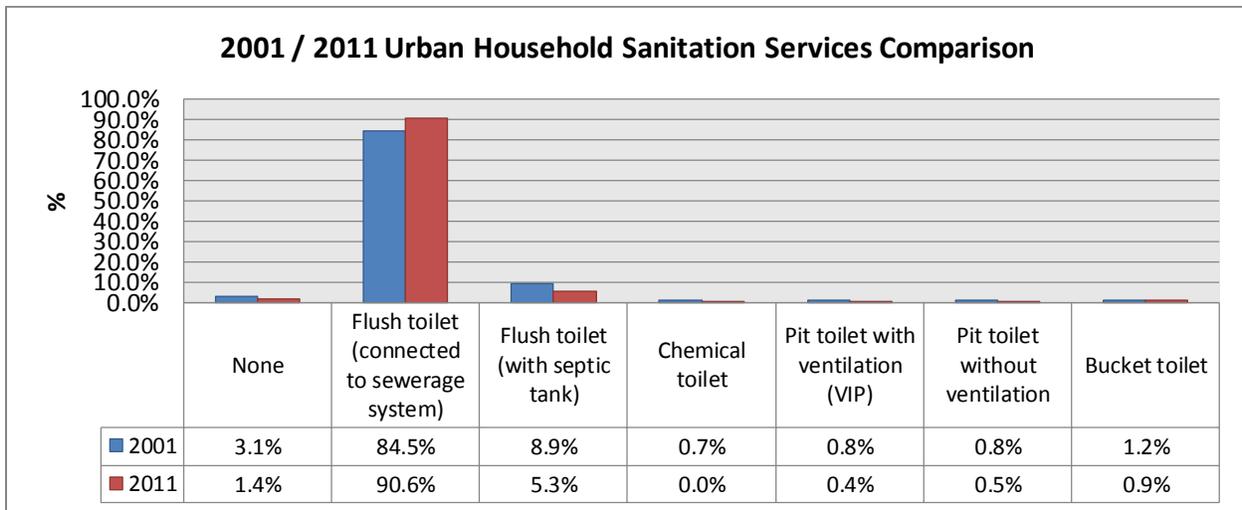


Figure 28 - Urban Household Sanitation Services

In terms of urban areas, a growth to almost 91% for water born sanitation systems realised by 2011.

## 2001 / 2011 Hessequa Average Household Sanitation Services Comparison

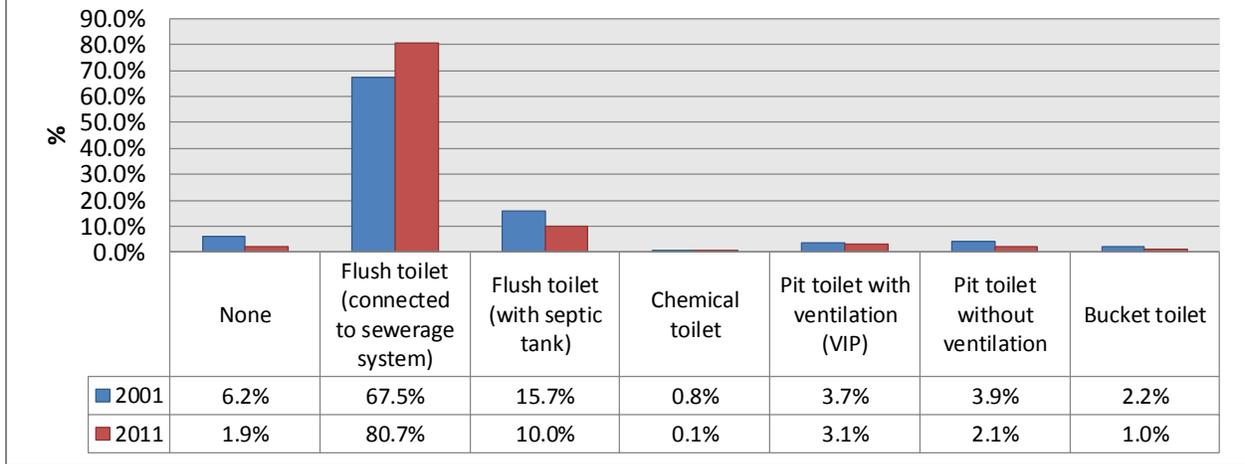


Figure 29 - Hessequa Average Household Sanitation Services

Figure 20 shows the general figures for the Hessequa region and immediately it is clear how the realities of the rural areas almost vanish as the overall picture does look good. In other words, it remains important to separate urban and rural figures when it comes to services rendered as the municipality is only directly responsible for the urban residents. This should be used to measure performance of a local council, but on the other hand the importance of development in rural areas can be isolated and focused on as an issue that needs desperate attention.

For more detailed information about sanitation services broken down in ward levels as well, please refer to Table 2 on the following page.

Table 2 - 2001 / 2011 Detailed Household Sanitation Services Comparison

2001 / 2011 Detailed Household Sanitation Services Comparison																		
	Ward 1		Ward 2		Ward 3		Ward 4		Ward 5		Ward 6		Ward 7		Ward 8		Total	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
<b>Rural</b>																		
None	65	44	128	18	85	29	37	22	21	0	70	7	89	11	0	0	496	133
Flush toilet (connected to sewerage system)	42	292	70	103	181	291	58	526	36	23	314	94	228	414	0	0	929	1743
Flush toilet (with septic tank)	294	232	249	132	287	236	221	44	21	0	93	212	24	80	0	0	1189	937
Chemical toilet	0	3	0	0	6	10	28	3	0	0	0	0	3	4	0	0	37	20
Pit toilet with ventilation (VIP)	97	46	35	82	172	134	24	91	18	11	39	48	12	31	0	0	397	443
Pit toilet without ventilation	62	45	151	32	81	110	84	26	6	1	3	45	30	18	0	0	417	277
Bucket toilet	6	18	42	0	60	7	0	4	0	2	25	4	33	5	0	0	167	41
<b>Total</b>	<b>566</b>	<b>696</b>	<b>675</b>	<b>371</b>	<b>872</b>	<b>829</b>	<b>451</b>	<b>725</b>	<b>102</b>	<b>48</b>	<b>545</b>	<b>415</b>	<b>420</b>	<b>582</b>	<b>0</b>	<b>0</b>	<b>3631</b>	<b>3667</b>
<b>Urban</b>																		
None	6	28	9	12	27	2	30	49	45	2	128	29	6	34	31	8	282	166
Flush toilet (connected to sewerage system)	1232	1530	955	2054	732	933	679	1118	960	1407	933	1324	1145	1280	961	1418	7596	11064
Flush toilet (with septic tank)	139	123	212	80	3	76	53	164	371	99	3	11	0	86	18	13	799	652
Chemical toilet	3	0	0	1	0	0	50	0	3	1	0	0	3	1	0	0	59	3
Pit toilet with ventilation (VIP)	3	1	6	2	3	2	55	34	6	7	0	3	0	0	0	3	73	52
Pit toilet without ventilation	0	2	18	1	0	0	45	30	3	5	3	8	3	3	0	9	72	59
Bucket toilet	0	14	0	1	9	0	15	9	81	24	0	47	3	4	3	10	111	110
<b>Total</b>	<b>1383</b>	<b>1729</b>	<b>1201</b>	<b>2151</b>	<b>774</b>	<b>1016</b>	<b>927</b>	<b>1434</b>	<b>1468</b>	<b>1547</b>	<b>1067</b>	<b>1433</b>	<b>1160</b>	<b>1422</b>	<b>1013</b>	<b>1474</b>	<b>8993</b>	<b>12206</b>
<b>Total</b>																		
None	71	73	137	30	112	32	67	72	66	2	198	37	95	46	31	8	778	299
Flush toilet (connected to sewerage system)	1274	1822	1026	2157	913	1224	737	1644	996	1431	1247	1418	1373	1693	961	1418	8526	12807
Flush toilet (with septic tank)	433	355	462	213	290	312	274	209	392	99	96	223	24	167	18	13	1988	1589
Chemical toilet	3	3	0	1	6	10	78	3	3	1	0	0	6	6	0	0	96	23
Pit toilet with ventilation (VIP)	100	47	41	84	175	136	79	126	24	18	39	51	12	31	0	3	470	494
Pit toilet without ventilation	62	47	169	33	81	110	129	56	9	6	6	53	33	21	0	9	489	336
Bucket toilet	6	32	42	1	69	7	15	14	81	27	25	51	36	8	3	10	278	151
<b>Total</b>	<b>1949</b>	<b>2425</b>	<b>1876</b>	<b>2522</b>	<b>1646</b>	<b>1845</b>	<b>1379</b>	<b>2160</b>	<b>1570</b>	<b>1595</b>	<b>1612</b>	<b>1848</b>	<b>1580</b>	<b>2004</b>	<b>1013</b>	<b>1474</b>	<b>12624</b>	<b>15873</b>

Table 2 displays the amounts of households per category, per ward and also for rural, urban and the Hessequa region. Here the decline in rural households are clearly visible with a total of 3631 of the 2001 total of 12 624, which was roughly a third of all households of Hessequa. This number increased barely to 3667, but equates only to about a quarter of the 15 873 households of 2011.

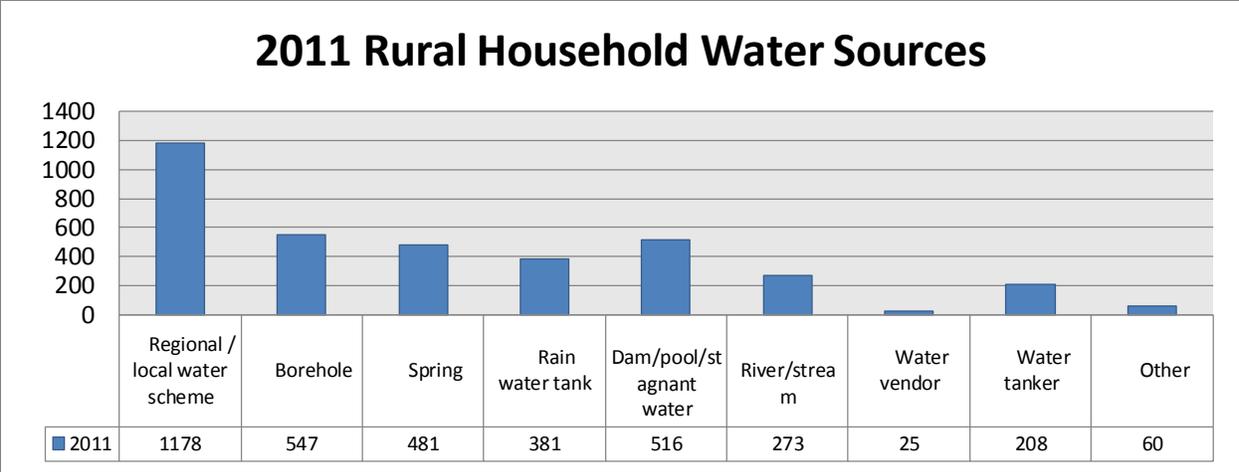


Figure 30 - Rural Household Water Sources

Figure 21 clearly shows the backlogs in terms of water services in the rural areas. Various sources are made use of by households in the rural area. When compared to urban water services, Figure 22 shows the number of households making use of water provided by a services operator.

These figures only denote the 2011 information as a comparison between 2001 and 2011 is not possible due to the indicators being very different from one another. During the 2001 census questions about how far the water source was away from the household was included, but in the 2011 census no reference to distance was made part of the questionnaire.

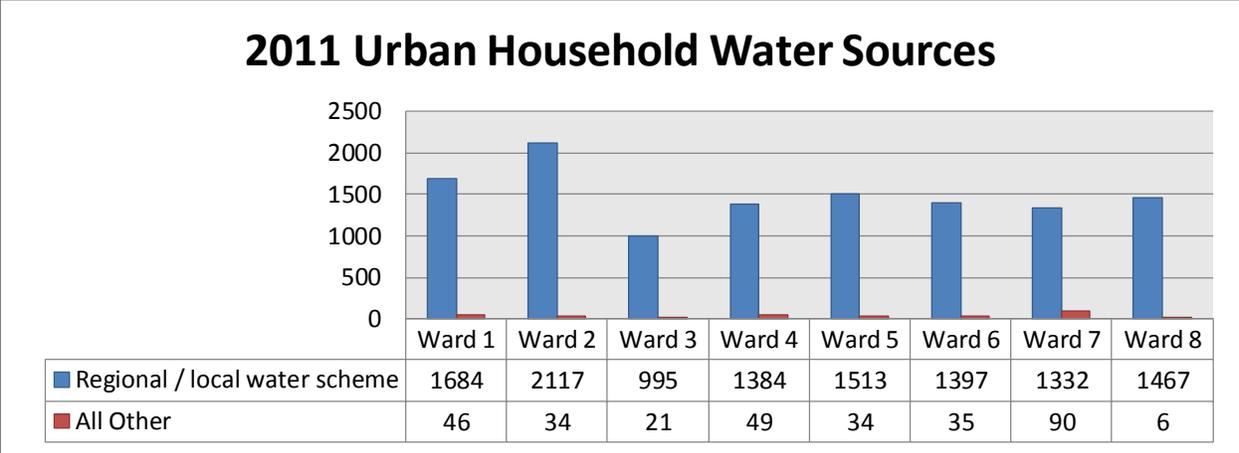


Figure 31 - Urban Household Water Sources

On the following page a detailed breakdown of the rural and urban household statistics are listed in table format for comparing ward information.

Table 3 - 2011 Rural Household Water Sources

2011 Rural Household Water Sources

2011	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8	Total
Regional / local water scheme	44	11	264	618	9	34	197	0	1178
Borehole	273	24	222	7	0	5	17	0	547
Spring	187	47	79	0	1	43	124	0	481
Rain water tank	52	143	92	36	0	28	29	0	381
Dam/pool/stagnant water	69	25	64	32	21	171	134	0	516
River/stream	11	75	63	2	6	83	33	0	273
Water vendor	3	2	7	3	0	9	1	0	25
Water tanker	47	45	26	10	9	37	32	0	208
Other	10	1	10	17	1	4	16	0	60
<b>Total</b>	<b>696</b>	<b>371</b>	<b>829</b>	<b>725</b>	<b>48</b>	<b>415</b>	<b>582</b>	<b>0</b>	<b>3667</b>

Table 4 - 2011 Urban Household Water Sources

2011 Urban Household Water Sources

2011	Ward 1	Ward 2	Ward 3	Ward 4	Ward 5	Ward 6	Ward 7	Ward 8	Total
Regional / local water scheme	1684	2117	995	1384	1513	1397	1332	1467	11888
All Other	46	34	21	49	34	35	90	6	317
Borehole	7	8	2	3	1	3	7	1	32
Spring	7	5	0	3	2	0	16	1	35
Rain water tank	5	7	1	1	2	1	6	1	24
Dam/pool/stagnant water	8	0	12	28	18	9	18	0	92
River/stream	2	0	0	0	0	2	2	1	7
Water vendor	3	4	3	0	3	1	24	0	38
Water tanker	12	9	1	3	2	8	14	1	51
Other	2	1	2	11	6	11	3	1	38
<b>Total</b>	<b>1729</b>	<b>2151</b>	<b>1016</b>	<b>1434</b>	<b>1547</b>	<b>1433</b>	<b>1422</b>	<b>1474</b>	<b>12206</b>

Refuse removal is not a service that is rendered to rural communities, but it is important to separate the rural and urban statistics to get a clear picture of the levels of service delivery in the urban areas as all information is demarcated in wards

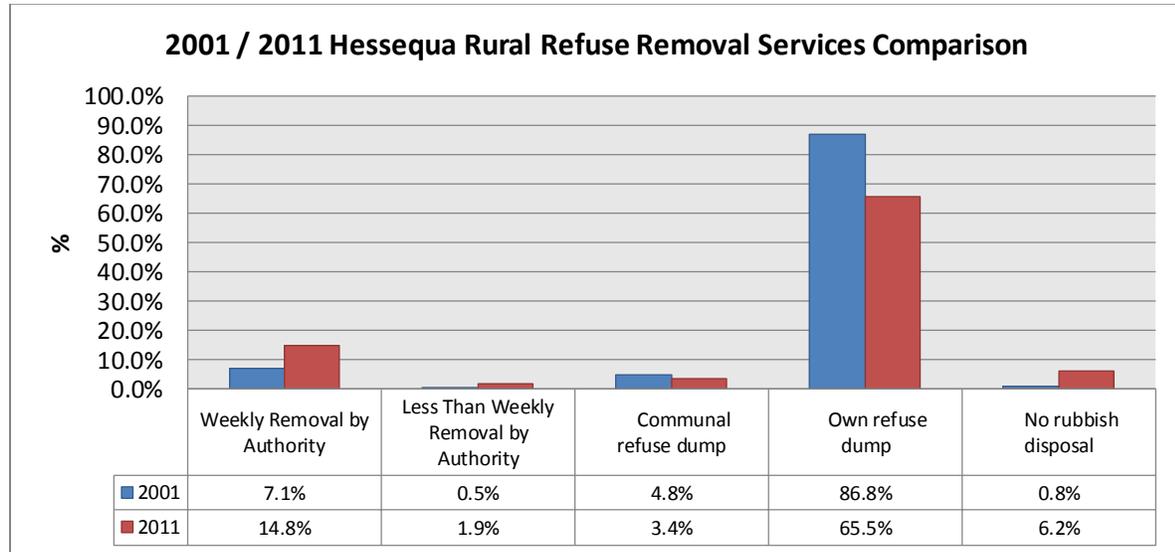
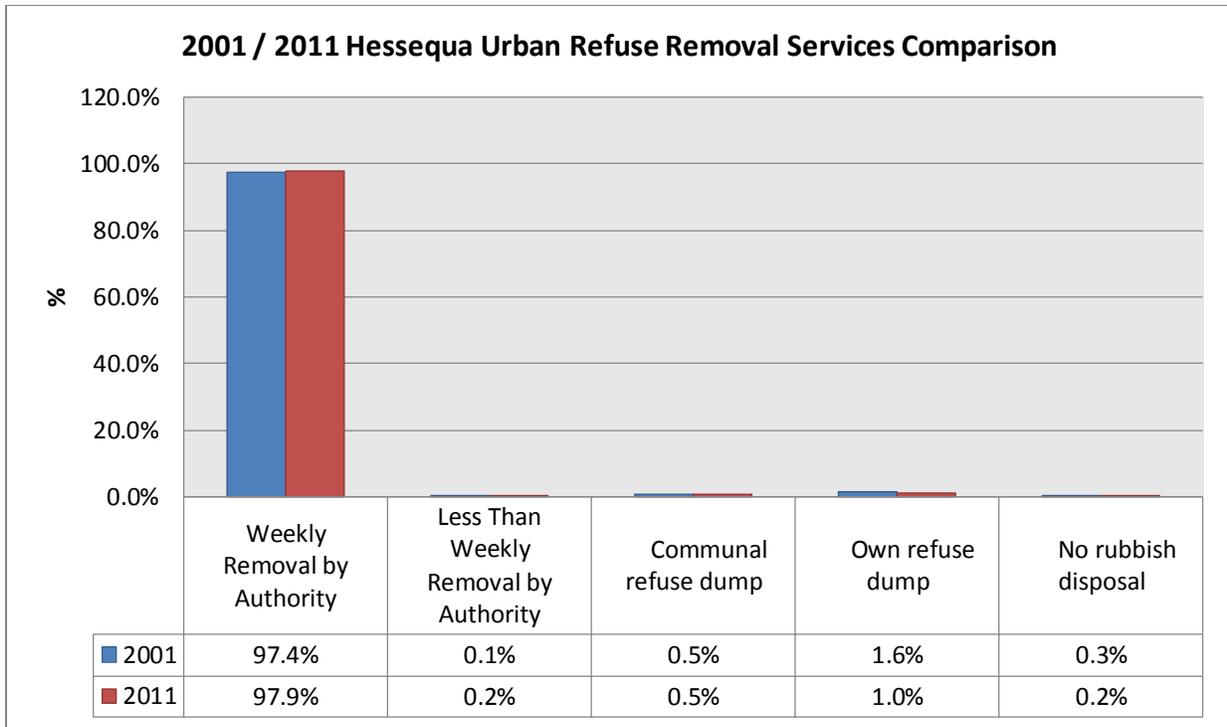
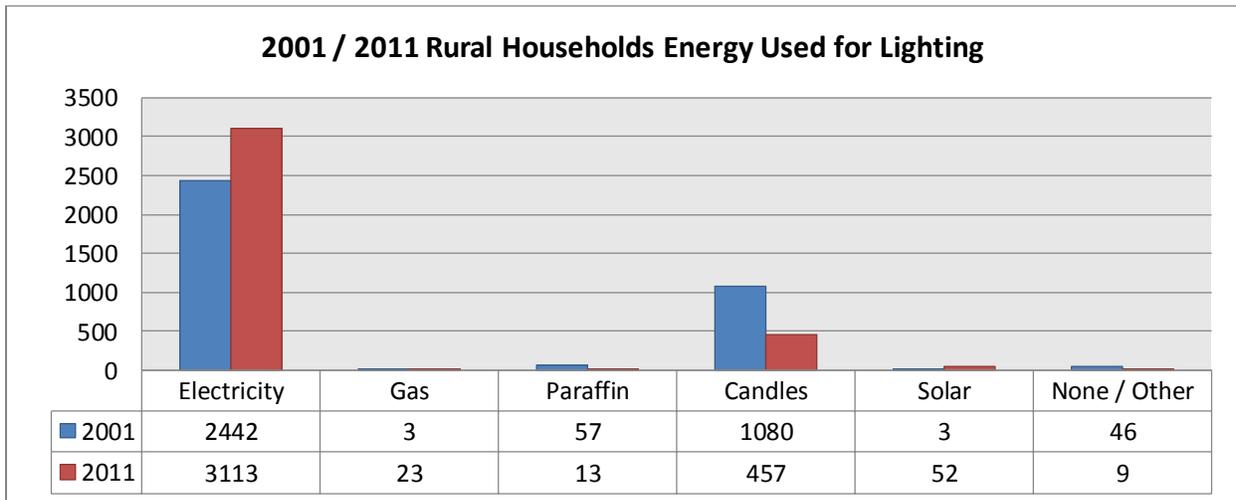


Figure 32 - Rural Refuse Removal



**Figure 33 - Urban Refuse Removal**

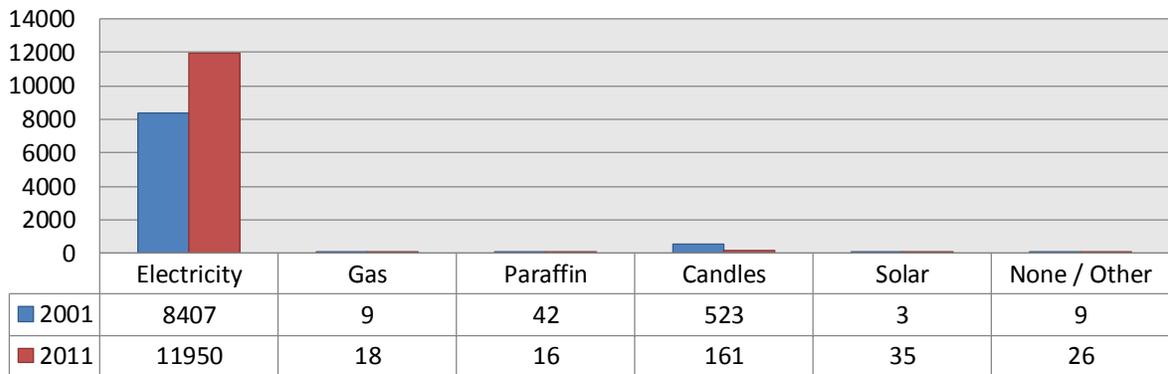
Hessequa has always been proud of the high quality of refuse removal services it renders to its communities. It is good to notice the slight improvement from 97.4% to 97.9% in weekly removal throughout the financial year.



**Figure 34 - Rural Households Energy Used for Lighting**

In terms of the energy used for lighting in rural areas it is comforting to see the rapid decline in the amount of households which uses candles as primary energy source for lighting. It is also interesting to note the rise in amount of solar or alternative energy usage in households. A decline in paraffin usage is also noted.

## 2001 / 2011 Urban Households Energy Used for Lighting



**Figure 35 - Urban Households Energy Used for Lighting**

In terms of urban households energy usage for lighting, the sharp rise in electricity usage and decline in the amount of households making use of candles is a vast improvement. Once more the usage of alternative energy sources have improved.

The table on following page gives a detailed breakdown of energy usage statistics for Hessequa by ward.

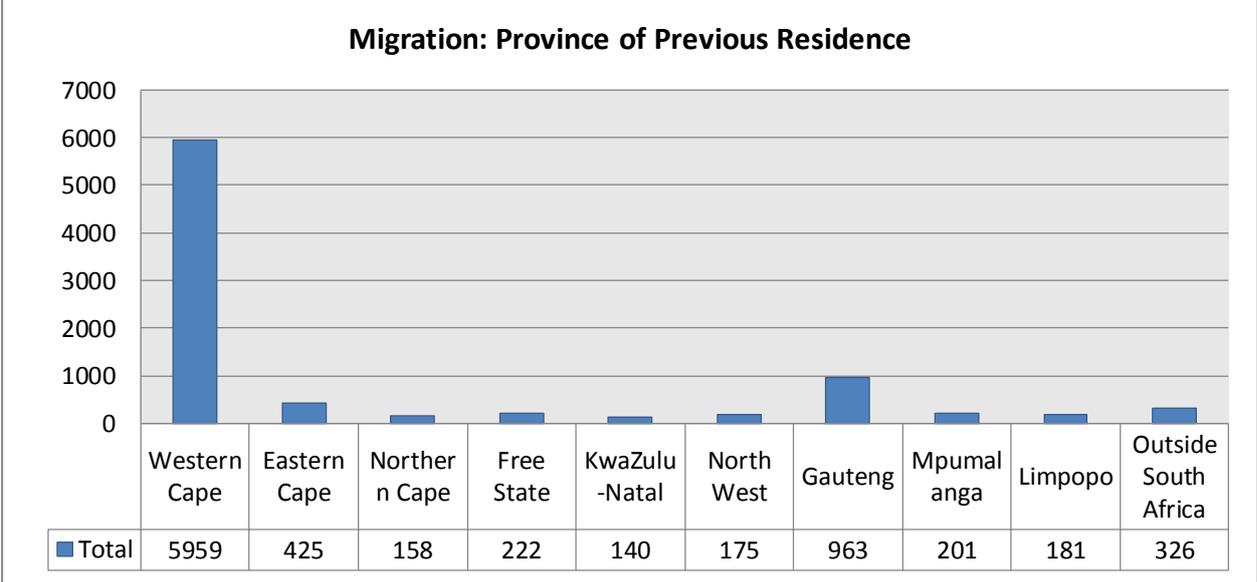
Table 5 - 2001 / 2011 Household Energy for Lighting Comparison

2001 / 2011 Household Energy for Lighting Comparison

	Ward 1		Ward 2		Ward 3		Ward 4		Ward 5		Ward 6		Ward 7		Ward 8		Total	
<b>Rural</b>																		
<b>Electricity</b>	381	546	416	310	543	651	321	661	66	40	401	373	315	532	0	0	2442	3113
<b>Gas</b>	0	5	3	3	0	8	0	4	0	0	0	2	0	2	0	0	3	23
<b>Paraffin</b>	12	10	21	0	3	1	3	1	6	0	12	0	0	0	0	0	57	13
<b>Candles</b>	167	106	229	57	299	148	128	53	30	8	128	39	99	45	0	0	1080	457
<b>Solar</b>	0	29	3	0	0	17	0	2	0	0	0	1	0	3	0	0	3	52
<b>None / Other</b>	6	0	3	2	28	5	0	3	0	0	3	0	6	0	0	0	46	9
<b>Total</b>	566	696	675	371	872	829	451	725	102	48	545	415	420	582	0	0	3631	3667
<b>Urban</b>																		
<b>Electricity</b>	1338	1665	1168	2113	726	1011	790	1397	1305	1512	1037	1406	1112	1389	931	1457	8407	11950
<b>Gas</b>	0	2	0	7	0	2	0	3	6	1	0	0	3	1	0	1	9	18
<b>Paraffin</b>	9	4	0	0	3	0	6	0	15	0	0	9	0	3	9	0	42	16
<b>Candles</b>	33	35	33	20	45	2	129	27	142	29	30	16	45	23	67	9	523	161
<b>Solar</b>	0	15	0	5	0	1	0	3	0	2	0	2	0	3	3	5	3	35
<b>None / Other</b>	3	7	0	7	0	0	3	5	0	2	0	0	0	3	3	2	9	26
<b>Total</b>	1383	1729	1201	2151	774	1016	927	1434	1468	1547	1067	1433	1160	1422	1013	1474	8993	12206

**Migration**

Migration plays an important role in terms of the Hessequa population landscape. The following indicators attempt to create a profile of who, from where and how much are migrating into the Hessequa region.



### ***Summary and Important Notes***

To summarise the profile, the following few notes and comments are stated. It does not seek to encompass all the realities of this profile, but rather focus on issues that most probably will impact planning processes in a municipal context.

1. **Growth.** A positive population growth in Hessequa of 16.19% was recorded for the 2001 – 2011 period. Wards 4 and 5 needs to be singled out as areas where deeper analysis is needed for a clearer picture concerning population migration within the community, but crossing ward borders.
2. **Education.** In general it is a positive picture that is created of the Hessequa educational levels. However it is important to highlight Ward 2 in displaying a significant growth in children and youth, but recording a negative growth in terms of education levels.
3. **Rural Growth.** From the figures it is clearly visible that during the past 10 years a vast amount of people migrated from the rural areas into urban environments. Various factors contribute to this, but issues relating to this needs to be considered in planning and interaction with the various role-players in the Hessequa community.
4. **Rural Development.** As the figures have shown, rural residents have access to much less services and opportunities than an urban resident. Even though municipalities receive a minor tax income from land owners, the future of rural residents needs to be considered in developmental planning.
5. **Household Gender Growth.** As the figures show, there was a large increase in the amount of female headed households. Without trying to enforce a historically male dominated approach, it is important to discuss the effect of policies on the social fabric of any community. Female headed households are in many examples also single parents which, according to welfare institutions, are not the best environment to raise the leaders of tomorrow.
6. **Employment / Economic Activity.** Even with the growth of unemployment to 8.1% for 2011, it is still about half the official unemployment rate of the country. It seems that labour absorption is slow in growth and should the analysis of these economic indicators be considered as a separate process. It is shocking that 42% of the labour force of Hessequa cannot be classified as employed or unemployed. A clear profile of how households do earn an income is needed and should the Social Grant figures also be considered. An in-depth study of the informal economy is advised.

## ANALYSIS OF HESSEQUA –OUR ENVIRONMENT

The word biodiversity is used to mean the variety of life on our planet, measurable as the variety within species, between species, and the variety of ecosystems. South Africa has a very substantial share of global biodiversity within its borders, ranking third of any country in the world. Owing to its variety of landscapes between the scenic coastlines across the Langeberg to the Little Karoo, Hessequa makes a meaningful contribution to this biodiversity.

Our biological heritage is important to us in many ways – providing us with ecosystem services like clean water, contributing directly to the economy through industries like fishing and tourism, supporting livelihoods by providing food, medicines and building materials and generally improving our health and well-being. The value of biological diversity has three components:

- 1) Many species have a direct value through the products that can be harvested, for instance, many medicines used throughout the world have active ingredients extracted from plants and animals.
- 2) The pollination of agricultural crops by insects is an example of the indirect value where aspects of biodiversity bring economic benefit without the need to consume the resource.
- 3) There is also an ethical value to the diversity of life. Although it does not always lend itself to economic valuation in monetary terms, we still appreciate the beauty of the rose flower.

Through the most powerful human influence, habitat destruction and ill-conceived developments, biodiversity is under threat world-wide. The focus is frequently on the accelerated rate of disappearance of a species in the face of human influence. Species are lost at a rate never seen before in the fossil record of Earth. To counteract this mass extinction, conservation action is needed that is effective in maintaining the ecosystem services (e.g. fishing, grazing, clean water and air) provided by high levels of biodiversity.

Biodiversity encompasses more than just species richness. We should ensure that we protect representatives of as many types of community and ecosystem as possible. By conserving suitable habitat we are also improving the survival chances of the species and populations contained therein. Living landscapes preserve the option value of biodiversity – the potential to provide benefits in the future. To protect biodiversity effectively, we need to conserve (Driver *et al.*, 2003):

- A representative sample of all biodiversity; and
- The ecological and evolutionary processes that allow this biodiversity to persist over time.

The systematic approach to conservation planning involves setting quantitative conservation targets, for instance the number of hectares of river corridor that need to be set aside to remain undeveloped. Quantitative conservation targets show how much we need to conserve in order to achieve the goal of living landscapes. This chapter explores how close we have come to this goal in Hessequa.

### ***Drivers and pressures***

Important driving forces putting pressure on the biodiversity resources of Hessequa are:

- Population growth;
- The demand for economic growth to provide wealth and job creation;

- Demand for housing and associated services for historically disadvantaged people;
- Unsustainable extraction of natural resources as a result of poverty or greed;
- Poor land use practices promoting soil erosion and infestation by invasive alien plants;
- Altered veld fire regimes;
- Poor waste and pollution management;
- Climate change; and
- Lack of understanding (ignorance of the importance of conserving biodiversity).

With an estimated annual population growth rate of 1% for the period 2001 – 2005 (Lehola, 2006) more and more South Africans are born every day whose basic human needs for food, freshwater and fuel are making unprecedented demands on our global and local ecosystems. Beyond the necessities of survival, there is increasing demand of society for more material goods and services.

South Africans already consume more resources per capita than people in any other African nation. As previously disadvantaged people strive to increase material wealth and the comforts and conveniences they have been denied before the new political dispensation, the strain on natural resources and biodiversity will only increase.

Ignorance of the importance of conserving biodiversity through lack of understanding should not be underestimated as a contributing factor. Subjects dealing with the conservation of our biological heritage are only recent arrivals in the school curriculum and the demand for environmental education by appropriately qualified teachers exceeds the supply by far, especially in out-of-town places.

### ***Ecosystem status***

The National Spatial Biodiversity Assessment (NSBA, Driver *et al.*, 2005) used maps of land classes, such as vegetation types or habitat types (e.g. Gourits Valley Thicket), to represent biodiversity features (pattern and process), habitat transformation and future land use pressure, across the nation. By using land classes incorporating expert knowledge about biological characteristics as surrogates of biodiversity (Lombard *et al.*, 2003), the problems associated with incomplete species-based inventories, collection bias and extrapolating from one species group to another are overcome. In the absence of comprehensive data sets of the occurrence and status of species of conservation concern in Hessequa, the NSBA approach of using land classes as stand-ins for biodiversity was adopted for this report.

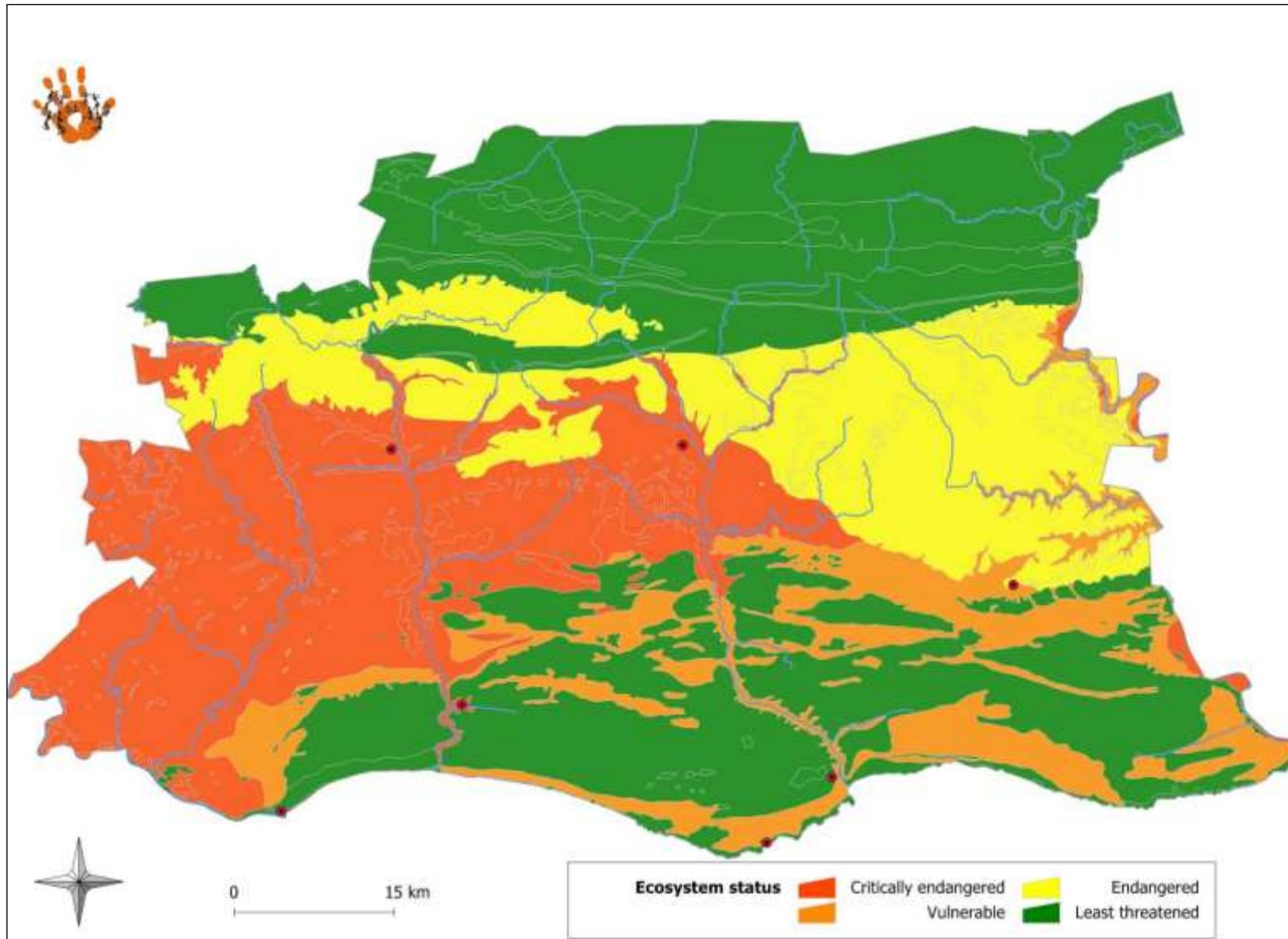
A total of 27 land classes covering in excess of 573,000 hectares have been identified in Hessequa by Mucina and Rutherford (2006). The classification of how intact and well-functioning they are is based on four categories:

Table 4. Definition of ecosystem status categories of land classes.

Remaining natural habitat %	Category	Definition
80 - 100	Least Threatened	Still largely intact
60 - 80	Vulnerable	Reasonably intact, but nearing the threshold beyond which they will start to lose ecosystem functioning
20 - 60	Endangered	Have lost significant amounts of their original natural habitat, impairing their functioning
0 - 20	Critically Endangered	Have so little of the original habitat left that not only their functioning has been severely impaired, but species are being lost

The ecosystem status measures the amount of habitat lost in ecosystems (measured as land classes) relative to the conservation targets for those ecosystems. In Hessequa 22.2% of land classes are Endangered or Critically Endangered, with a further 11% Vulnerable to lose ecosystem functioning. In terms of the area occupied by the land classes, the Endangered or Critically Endangered account for 19% and 27%, respectively, of Hessequa (Figure 3).

The western and central coastal lands, the Langeberg Mountains and the areas north of it are still largely intact, whereas the western midland areas are under greater threat to lose their ecological integrity (Figure 3). The Critically Endangered parts of Hessequa are all lying in the west representing Renosterveld and Cape Lowland Alluvial Vegetation in river valleys. They are Critically Endangered because conversion to agriculture (owing to high soil fertility) has compromised target achievement. Only 19% and 22% of the original extent of Eastern Ruins Shale Renosterveld and of Ruins Silcrete Renosterveld, respectively, are remaining today, missing their biodiversity target of 27% which would be required to look after 75% of the species occurring in each vegetation type. Cape Lowland Alluvial Vegetation has been reduced to its biodiversity target of 31% remaining and cannot sustain further loss of habitat (Rouget *et al.* 2004). In practical terms this means that all land lying fallow for more than 10 years should only receive environmental authorisation for ploughing (a requirement of the NEMA Amendment Bill, 2008) in exceptional circumstances.



### ***Extent of formally conserved areas***

Formally conserved areas falling into Hessequa are very important for biodiversity conservation, but not all types of conservation areas are equally valuable. For instance private game farms that are not part of a conservancy (type 3). Some game farms may well help to achieve conservation goals across the land, but due to the low level of protection that they are afforded and frequent changes in their status they are not listed in Table 5, which gives the extent of formally conserved areas of type 1 and 2 in Hessequa.

*Table 5. Extent of formally conserved areas of type 1 and 2 in Hessequa.*

<b>Formally protected area</b>	<b>Area [ha]</b>
Conservancies	32319
Local Authority Nature Reserves	1002
Private Nature Reserves (formally declared)	6159
Mountain Catchment Areas	29801
Provincial Nature Reserves and Wilderness Areas	17680
Sum of all formally conserved areas	86962
Hessequa area	573000

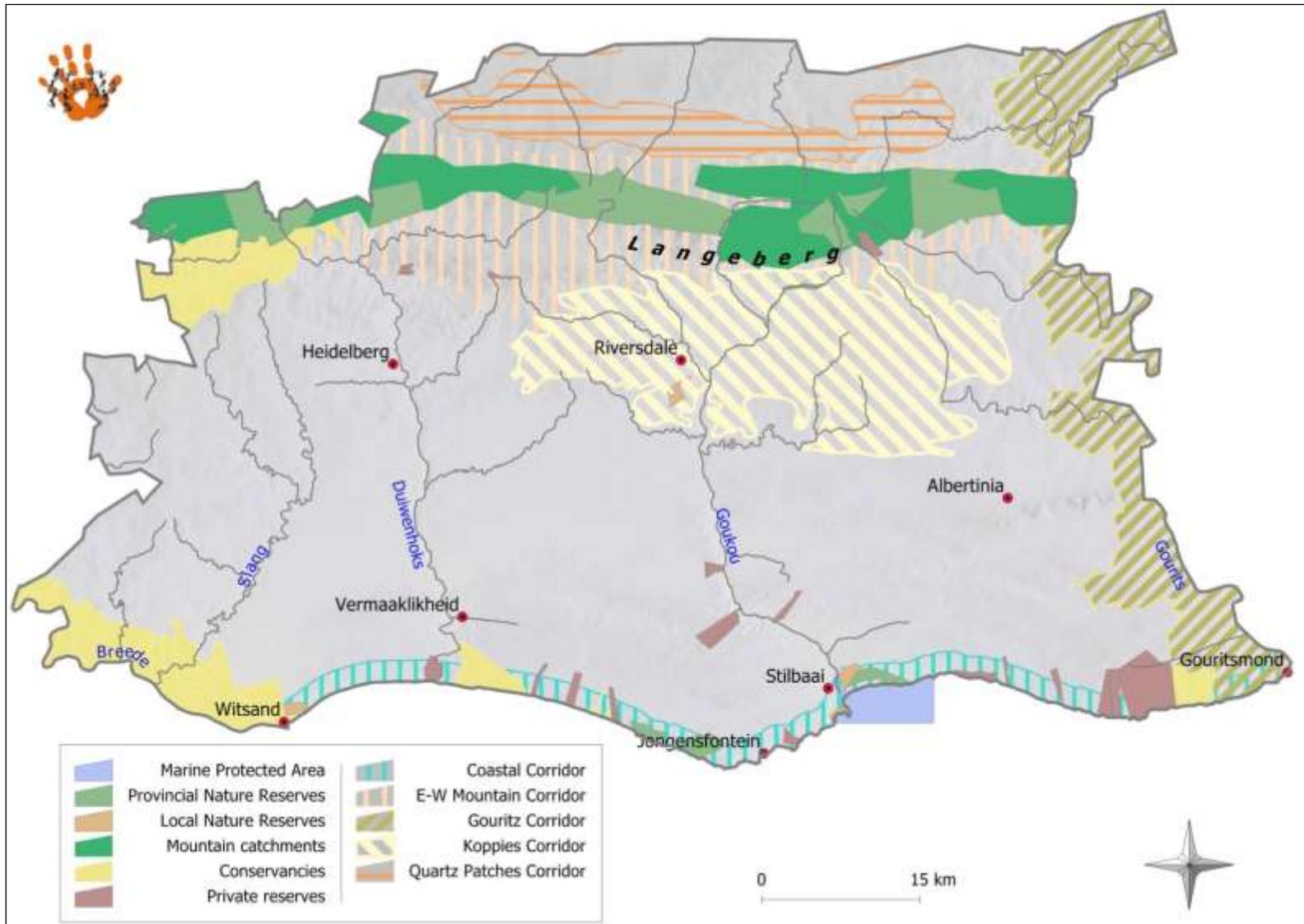
Currently, nearly 6% of land in South Africa is under protection in Type 1 and Type 2 protected areas (Rouget *et al.*, 2004). With a total area of 15% under formal type 1 and 2 protection Hessequa exceeds the national average considerably. It should be noted, however, that the protected areas shown in Figure 4 differ considerably in their management. Whereas all Local Authority Nature Reserves have scientifically formulated management plans, the same cannot be said for some of the other types (e.g. most conservancies). Much remains to be done in Hessequa until all types of reserves will reach their full potential in supporting bioregional conservation goals.

### ***Biodiversity corridors***

Figure 4 also shows the biodiversity corridors, of which there are five, identified by regional conservation planners. As described by (Pierce, 2003), corridors are a system of natural pathways for plants and animals meant to safeguarded their future survival. The basic concept is to facilitate the exchange of genetic information between species members and to promote natural evolutionary processes. With much of the countryside in Hessequa already transformed by agricultural development, corridors are seen as instrumental in preventing further loss of biodiversity. For a network to function as intended, the biological mechanisms responsible for the dispersal of plant propagules (pollen, seeds, pods, fruits) should not be interrupted, and neither should be the recombination of genes between sexually mature animals. For this to happen, animals must not be stopped by insurmountable fences, squashed on busy roads, mauled by domestic animals, or caught in indiscriminate gin traps. Similarly, plant propagules rely on the presence of their agents of dispersal, e.g. on free-flowing water along drainage lines, on insect pollination, attachment to the fur of an animal or being swallowed by birds to be transported in the digestive tract. Clearly, corridor

functioning is a matter of the density of people and the nature and the spatial arrangements of infrastructure whether an animal can safely reach the other side.

As can be seen in Figure 4 the coastal and the east-west mountain corridors are supported by declared conservation areas. However, the Gourits, the inland koppies and the Succulent Karoo corridors remain woefully unsupported.



### ***Ecosystem protection***

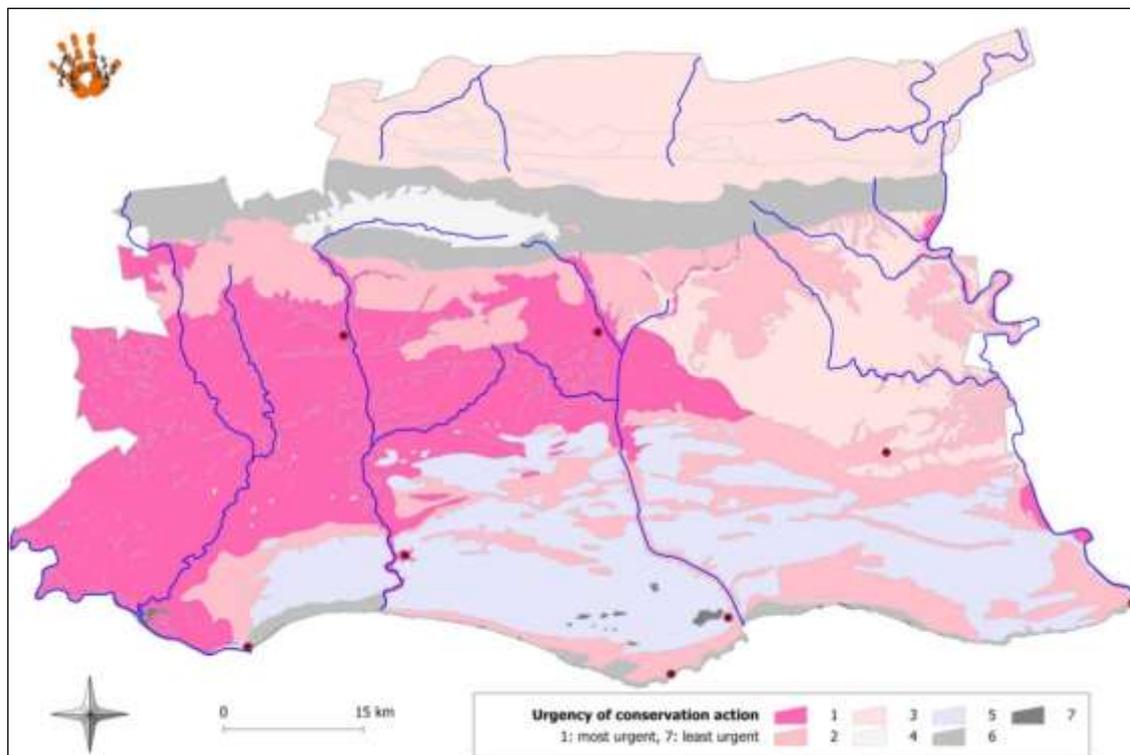
It is informative to compare the level of ecosystem functioning (Figure 3) with the protection level enjoyed by each of the land classes in Hessequa. This tells how well the protected area network in the local municipality is performing in terms of representing terrestrial biodiversity.

The analysis presented graphically Figure 5 ranks Hessequa’s 27 land classes by their urgency of conservation action. Ranks were calculated from data provided by the National Spatial Biodiversity Assessment (Rouget *et al.*, 2004) by multiplying the conservation status by the protection level of a given land class. Values were assigned to conservation status (C-Score) and protection level (P-Score), respectively, as follows (Table 6):

<b>Conservation status</b>	<b>C-Score</b>	<b>Protection level</b>	<b>P-Score</b>
Least Threatened	4	Well protected	4
Vulnerable	3	Moderately protected	3
Endangered	2	Hardly protected	2
Critically Endangered	1	Poorly protected	1

This ranking system assigns the highest urgency of conservation action to a Critically Endangered and poorly protected land class, while Least Threatened and well protected land classes score further down the urgency list. Regional gradients in the urgency of conservation action are clearly evident in Figure 5. Many hardly or poorly conserved land classes occurring in the west are ill protected. Soberingly, the land protected by farms in the Breede Conservancy is not yet sufficient to prevent the further loss of ecosystem services in the Renosterveld.

*Figure 5. Urgency of conservation action in Hessequa.*



### ***Indicators***

Measured against the National Guidelines for State of Environment Indicators (DEAT, 2002) Hessequa's species diversity and ecosystems are under severe pressure, resulting in habitat change, as well as diminishing ecosystem services.

The indicator "extent of natural areas remaining" in the habitat change category shows that in nearly half (46%) of Hessequa the biodiversity patterns and processes are so severely compromised by habitat transformation that they fall into the Endangered (19%) or Critically Endangered (27%) categories (see Figure 3).

In respect of the indicator "extent of conserved area" Hessequa has 15% of its area under formal type 1 and 2 protection, which is above the national average. However, the Gourits River valley, the inland koppies and the corridor linking quartz patches in the Succulent Karoo biome are unsupported by reserves.

### ***Impacts***

The drivers of biodiversity loss often act in combination (change in land use frequently goes together with changed fire regimes in fynbos) and so the resulting impacts are impossible to apportion neatly. This is, of course, a reflection of the multitudes of inter-dependencies of patterns and processes in the natural world. A selection of the most important impacts of the loss of biodiversity must suffice here.

Habitat fragmentation and habitat loss is an important cause of the decline in biodiversity resources. The more specific the food and habitat needs of a species are, the greater its vulnerability to agricultural activity, roads, cities and associated sources of pollution. First in the firing line are the larger predators (Leopard, Caracal, Honeybadger) of which there will soon none be left, but there are many other animals and plants threatened by extinction in Hessequa. At the bitter end, the only surviving species will be human commensals (rats, cockroaches etc.) whose habitat requirements correspond to the degraded state associated with human activity. For all species that became extinct in the process the potential to provide benefits in the future - the option value of biodiversity – is lost forever.

The industrialisation of agriculture is the leading cause of habitat loss and thus biodiversity loss in Hessequa. As economical imperatives dictate ever larger fields that can be worked by mechanical means at an industrial scale, hedge rows and other kinds of refugia of untransformed land for wildlife fall victim to the plough. Often, these practises increase the susceptibility of the land to wind and water erosion. Not only does this degrade the land further, it also increases the siltation of streams that are already stressed from over pumping for irrigation. As the land area for natural ecosystems shrinks, there is less natural capacity to filter pollutants and detoxify waters and less capacity to cycle nutrients and compost organic wastes. Species and ecosystem services decrease as a consequence.

Fynbos and renosterveld, important vegetation types in the Hessequa, require fire to stimulate seed germination, but the fire frequency is important. Plants that are killed by fire and that depend on re-seeding to survive as species have not enough time to mature and to set seeds if fires occur too often. Conversely, if natural fynbos is prevented from burning because the fire would bring an unacceptably

high risk to houses nearby, the fire-dependent plant components it contains will eventually die from senescence. In recognition of the importance of fire in the Local Municipality the Hessequa Fire Protection Association (HFPA) has been formed. The HFPA aims to contribute to community development by eliminating loss of life, human injury, economic and environmental losses by veld fires and by progressively reducing impacts while promoting the useful role of veld fires.

Ecosystem degradation and subsequent loss of ecosystem services tends to harm poor rural people more than affluent city dwellers. Poor people have limited assets and are more dependent on common property resources (e.g. fire wood), while the wealthy are buffered against loss of ecosystem services by being able to purchase basic necessities and scarce commodities.

### ***Responses***

Mainstreaming biodiversity in land use planning and decision-making

Increasing numbers of people placing greater demands on the natural environment are compromising ecological integrity at an unprecedented rate. Mainstreaming biodiversity considerations into socio-economic agendas holds most promise to turn the situation around. It is necessary to:

- Integrate the protection and management of biodiversity resources with all human development by means of local, regional and national conservation initiatives;
- Build capacity in the areas of conservation assessment, taxonomy, green technology and knowledge transfer;
- Increase capacity in environmental law enforcement, management and education;
- Strengthen existing biodiversity conservation programmes to identify ecosystems, species and genetic resources that are at imminent risk of extinction; and
- Implement strong countermeasures to slow down the speed with which the loss of biodiversity occurs.

Improving interactions with biodiversity conservation programmes

The National Environmental Management: Biodiversity Act, no. 10 of 2004, provides for the management and conservation of South Africa's biodiversity within the framework of the National Environmental Management Act, no. 107 of 1998. Since the promulgation of the Act and the establishment of the South African National Biodiversity Institute (SANBI) existing biodiversity conservation programmes (e.g. CAPE, SKEP) have been strengthened considerably and a host of new initiatives aimed at the protection of species and ecosystems have emerged in their wake.

The Cape Action for People and Environment (CAPE) Programme is driven by 23 partner organisations of SANBI and is aimed at addressing conservation and development priorities in the Cape Floristic Region, into which Hessequa falls. CAPE is supported by several project management units, located in key biodiversity corridors across the regions, such as the Garden Route Initiative (hosted by SANParks) and the Gourits Initiative (hosted by Cape Nature).

The Succulent Karoo Ecosystem Programme (SKEP) is an overarching framework for conservation action and sustainable development of the Succulent Karoo Hotspot. The Succulent Karoo is a global biodiversity treasure with over 6,000 plant species, 250 species of birds, 78 species of mammals, 132 species of reptiles and amphibians and an unknown number of insects.

These programmes and initiatives are generating new data on species distributions and insight into functional relationships between species and land classes that can inform the appraisal of Hessequa's biodiversity resources. The appraisal should include a review of the network of protected areas in Hessequa. The conservation plans should be incorporated into the Hessequa Integrated Development Plan as part of the Environmental Management Programme (Sector Plan).

Landscape planning in Hessequa should benefit greatly from the outcomes of the CAPE fine-scale biodiversity planning for the Riversdale Coastal Plain, a project funded by the Global Environment Facility (GEF). Cape Nature has been appointed as the lead implementing agency for the fine-scale biodiversity planning project and will be working in close partnership with the South African National Biodiversity Institute and other project partners such as provincial departments and agencies, local authorities, planning and environmental consultants and local conservation NGOs.

The outcomes of the fine-scale biodiversity planning for the Riversdale Coastal Plain, together with the information provided in this document, should provide the impetus for Hessequa's conservancies to develop and implement environmental management plans for the land under their care that are supportive of the greater goal of a living landscape.

### ***Strengthening institutional capacity and cooperation***

Environmental institutional capacity must be strengthened. Hessequa currently has only one Environmental Manager who is located within the Planning Department. Without strengthening interdepartmental cooperation Hessequa will not be able to keep up with its obligations in terms of biodiversity protection. Poor cooperation from the provincial Department of Environmental Affairs & Development Planning (DEA&DP) in matters of environmental law enforcement has been identified as a major weakness.

### ***Linking biodiversity protection and economic upliftment***

Biodiversity protection provides an opportunity for less formal, nature-based community initiatives to act as economic engines and job creators. A few examples are introduced below. Some of these initiatives are good examples of collaborative programmes that involve a range of national agencies and include municipalities at a local level.

- Expanded public works programme, eco-tourism, bee farming, wild-flower harvesting linked to IDP projects;
- LandCare Programme;
- Working for Water;
- Working for Wetlands;
- Working for Fire;

- Working for the Coast.



## Developmental Focus Areas



# FOCUS AREA 1: AN ACCOUNTABLE LOCAL AUTHORITY WITH A FIT FOR PURPOSE WORKFORCE AND TRANSPARENT FINANCIAL PRACTICES

## Performance Management

### ***Introduction***

Performance management is a process which measures the implementation of the organisation's strategy. It is also a management tool to plan, monitor, measure and review performance indicators to ensure efficiency, effectiveness and the impact of service delivery by the municipality.

At local government level performance management is institutionalized through the legislative requirements on the performance management process for Local Government. Performance management provides the mechanism to measure whether targets to meet its strategic goals, set by the organisation and its employees, are met.

The constitution of S.A (1996), section 152, dealing with the objectives of local government paves the way for performance management with the requirements for an "accountable government". The democratic values and principles in terms of section 195 (1) are also linked with the concept of performance management, with reference to the principles of *inter alia*:

- the promotion of efficient, economic and effective use of resources,
- accountable public administration
- to be transparent by providing information,
- to be responsive to the needs of the community,
- and to facilitate a culture of public service and accountability amongst staff.

The Municipal Systems Act (MSA), 2000 requires municipalities to establish a performance management system. Further, the MSA and the Municipal Finance Management Act (MFMA) requires the Integrated Development Plan (IDP) to be aligned to the municipal budget and to be monitored for the performance of the budget against the IDP via the Service Delivery and the Budget Implementation Plan (SDBIP).

In addition, Regulation 7 (1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 states that "A Municipality's Performance Management System entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players." Performance management is not only relevant to the organisation as a whole, but also to the individuals employed in the organization as well as the external service providers and the Municipal Entities. This framework, *inter alia*, reflects the linkage between the IDP, Budget, SDBIP and individual and service provider performance.

### ***Legislative requirements***

In terms of section 46(1)(a) a municipality must prepare for each financial year a performance report reflecting the municipality's and any service provider's performance during the financial year, including comparison with targets of and with performance in the previous financial year. The report must, furthermore, indicate the development and service delivery priorities and the performance targets set by the municipality for the following financial year and measures that were or are to be taken to improve performance.

### ***Strategic performance***

Strategic performance indicates how well the municipality is meeting its objectives and which policies and processes are working. All government institutions must report on strategic performance to ensure that service delivery is efficient, effective and economical. Municipalities must develop strategic plans and allocate resources for the implementation. The implementation must be monitored on an on-going basis and the results must be reported on during the financial year to various role-players to enable them to timeously implement corrective measures where required.

This report highlight the strategic performance in terms of the municipality's Top Layer Service Delivery Budget Implementation Plan (SDBIP), high level performance in terms of the National Key Performance Areas, performance on the National Key Performance Indicators prescribed in terms of section 43 of the Municipal Systems Act, 2000 and an overall summary of performance on a functional level. Details regarding specific basic service delivery targets, achievements and challenges will be included in the Annual Report of the municipality.

### ***The performance system followed for the financial year 2010/11***

#### ***Adoption of a Performance Management Framework***

The municipality adopted a performance management framework that was approved by Council during 2009. However, this framework is currently being revised to include more detailed processes and internal control. Once the revised framework has been workshopped by all the various role players the framework will be submitted to Council for approval.

#### ***The IDP and the budget***

The IDP process and the performance management process are integrated. The IDP fulfils the planning stage of performance management. Performance management in turn, fulfils the implementation management, monitoring and evaluation of the IDP.

#### ***The Service Delivery Budget Implementation Plan***

The organisational performance is evaluated by means of a municipal scorecard (Top Layer SDBIP) at organisational level and through the service delivery budget implementation plan (SDBIP) at directorate and departmental levels.

The SDBIP is a plan that converts the IDP and budget into measurable criteria on how, where and when the strategies, objectives and normal business process of the municipality is implemented. It also allocates responsibility to directorates to deliver the services in terms of the IDP and budget.

The MFMA Circular No.13 prescribes that:

- The IDP and budget must be aligned
- The budget must address the strategic priorities
- The SDBIP should indicate what the municipality is going to do during next 12 months
- The SDBIP should form the basis for measuring the performance against goals set during the budget /IDP processes.

The SDBIP were prepared as described in the paragraphs below and approved by the Executive Mayor 28 days after the budget was approved. The departmental SDBIP of each Directorate were approved by the Municipal Manager after the budget was approved. KPI's in the Top Layer SDBIP were adjusted after the mid-year assessment and/or after the adjustments budget has been approved. KPI's were adjusted to be aligned with the adjustment estimate and the reason for the change in KPI's was documented in a report to Council for approval. The approval documents have been safeguarded for audit purposes.

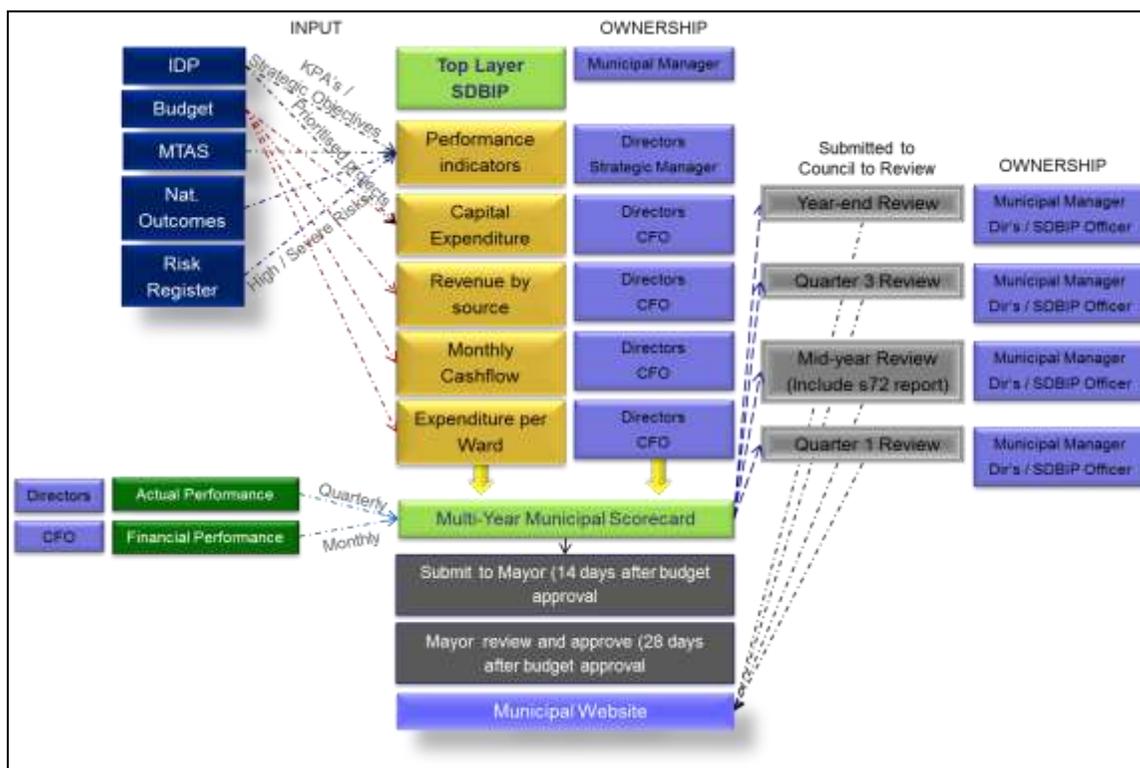
KPI's in the Departmental SDBIP were adjusted during the course of the year assessment and/or after the adjustments budget has been approved. KPI's were adjusted to be aligned with functional requirements and the adjustment estimate and the reason for the change in KPI's was documented in a report to the Municipal Manager for approval. The approval documents have been safeguarded for audit purposes.

### ***The municipal scorecard (Top Layer SDBIP)***

The municipal scorecard (Top Layer SDBIP) consolidate service delivery targets set by Council / senior management and provide an overall picture of performance for the municipality as a whole, reflecting performance on its strategic priorities. Components of the Top Layer SDBIP include:

- **One-year** detailed plan, but should include a **three-year capital plan**
- The 5 necessary components includes:
  - Monthly projections of revenue to be collected for each source
    - Expected revenue to be collected NOT billed
  - Monthly projections of expenditure (operating and capital) and revenue for each vote
    - Section 71 format (Monthly budget statements)
  - Quarterly projections of service delivery targets and performance indicators for each vote
    - Non-financial measurable performance objectives in the form of targets and indicators
    - Output NOT input / internal management objectives
    - Level and standard of service being provided to the community
  - Ward information for expenditure and service delivery
  - Detailed capital project plan broken down by ward over three years

The following diagram illustrates the establishment, components and review of the municipal scorecard (Top Layer SDBIP):



Top Layer KPI's were prepared based on the following:

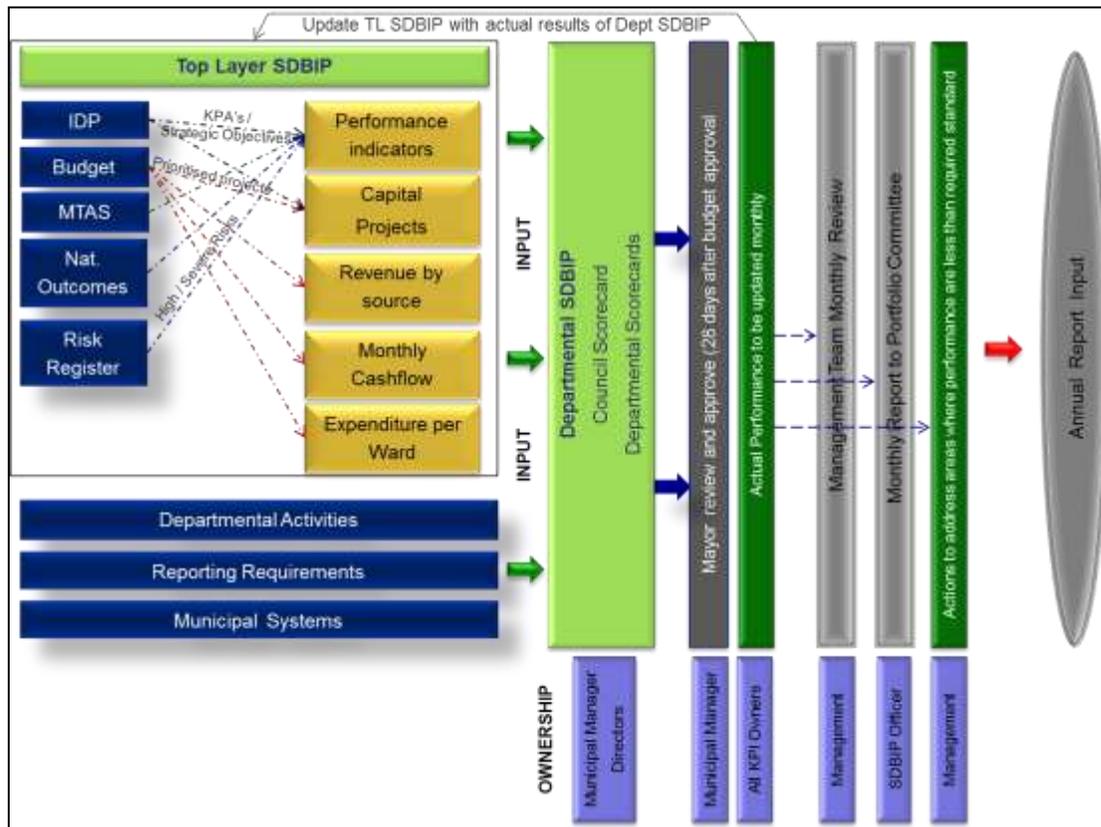
- Key performance indicators (KPI's) for the programmes / activities identified to address the strategic objectives as documented in the IDP.
- KPI's identified during the IDP and KPI's that need to be reported to key municipal stakeholders.
- KPI's to address the required National Agenda Outcomes, priorities and minimum reporting requirements.
- The municipal turnaround strategy (MTAS)

It is important to note that the municipal manager needs to implement the necessary systems and processes to provide the POE's for reporting and auditing purposes.

### **Directorate/Departmental scorecards**

The directorate and departmental scorecards (detail SDBIP) capture the performance of each defined directorate or department. Unlike the municipal scorecard, which reflects on the strategic performance of the municipality, the departmental SDBIP provide detail of each outcome for which top management are responsible for, in other words a comprehensive picture of the performance of that directorate/sub-directorate. It was compiled by **senior managers** for their **directorate** and consists of objectives, indicators and targets derived from the approved Top Layer SDBIP, the approved budget and measurable service delivery indicators related to each functional area.

The following diagram illustrates the establishment, components and review of the departmental SDBIP:



KPI's were developed for Council and the Municipal Manager and for each Directorate. The KPI's:

- Address the TL KPI's by means of KPI's for the relevant section responsible for the KPI.
- Include the capital projects KPI's for projects. The targets are aligned with the projected monthly budget and project plans.
- Address the key departmental activities.
- Each KPI have clear monthly targets and are assigned to the person responsible for the KPI's.

### Update actual performance

The municipality utilizes an electronic web based system on which KPI owners update actual performance on a monthly basis. KPI owners report on the results of the KPI by documenting the following information on the performance system:

- The actual result in terms of the target set.
- The output/outcome of achieving the KPI.
- The calculation of the actual performance reported. (If %)
- The reasons if the target was not achieved.
- Actions to improve the performance against the target set, if the target was not achieved.

It is the responsibility of every KPI owner to maintain a portfolio of evidence to support actual performance results updated.

### Monitoring of the Service Delivery Budget Implementation Plan

Municipal performance is measured as follows:

- The Directorates review their performance and monthly report their performance in terms of the SDBIP to the Municipal Manager and the respective Portfolio Councillor.
- Monthly submission of IYM reports to Council.
- Mid-year assessment and submission of the mid-year report to the Mayor in terms of section of Section 72(1) (a) and 52(d) of the Local Government Municipal Finance Management Act to assess the performance of the municipality during the first half of the financial year.

## Financial Management

### ***Introduction***

The Hessequa Municipality initiated a process to develop a Financial Plan and procured the services of an independent service provider to assess the historical outlook of the Hessequa finances, present trends and finally develop a plan to manage the finances of the Hessequa Municipality to ensure sustainability and efficient use of funding resources.

This chapter consists of the direct report that was compiled by INCA Portfolio Managers and is inserted in this document for strategic value. The extract that is included in the IDP does not include the complete INCA report, but only component of the report consisting of the financial assessments that was done and the findings coming from the assessments.

## 4. BASIS OF THE FINANCIAL ASSESSMENT

For a start IPM performs a detailed analysis of the historical financial information of Hessequa Municipality (Hessequa) for a period of 7 years from 2005/06 to the end of the last financial year on 30 June 2012. The historical data in the model provides a basis for reflection on the financial performance of Hessequa in the past and to plot future financial trends.

From this base, the anticipated cash flow performance of Hessequa is modeled for the next 5 financial years based on an extrapolation of the approved Medium Term Revenue and Expenditure Framework for 2012/13 to 2014/15 to ascertain to which extent financial planning and budgeting in particular will impact on Hessequa's current financial position. This assessment, will verify the reasonableness of the assumptions made in the approved Budget based on a comparison with Hessequa's past financial performance and serve as input into the 2013/14 to 2015/16 MTREF.

From this assessment, the level of external funding that can be absorbed by Hessequa without negatively impacting on its financial position is determined. This information will strategically assist Hessequa to determine the most optimal mix of funding sources to be utilized for investment in capital infrastructure, whilst maintaining adequate cash reserves and liquidity levels.

All of the data will be verified in conjunction with Hessequa. Accordingly the Model will provide a shadow credit rating of Hessequa's financial performance per annum benchmarked against an absolute set of financial parameters developed by IPM as well as against the relative performance of Hessequa in the context of the South African municipal sector. These benchmarks and parameters have been developed over a number of years.

The Model was originally developed to provide IPM with an indication of whether external loans could be advanced to a municipality and indicate the level of risk that needs to be factored into the interest rate pricing. The methodology is comparable to that of other financial institutions operating in this market and will provide Hessequa with a good indication of the financial market's perception on Hessequa's finances. It should also be noted that the shadow rating produced by the Model has historically compared well with the rating opinions issued by rating agencies in South Africa such as Moody's.

The financial performance of Hessequa over the period from 2005/06 to 2010/11 is also plotted against the performance of 4 of its municipal peers based on entities with a similar sized income base. This serves as a good indication of Hessequa's performance in comparison with the rest of the Municipal market.

In the closing findings and recommendations, key strategic focus areas are highlighted for improvement or development and it is proposed that during the workshop session with IPM, long and short term financial goals and benchmarks be set.

Ultimately, the active monitoring of the actual financial performance against the goals set is essential to determine true performance; and it is therefore recommended that the Model be updated on at least a semi-annual basis or once new financial information becomes available, as new information could fundamentally change the outcomes of the Model as well as the findings and recommendations.

## 5. HISTORICAL FINANCIAL OVERVIEW

To understand the present financial position of Hessequa the actual historical financial performance has been assessed which provides the required foundation to critically review the assumptions made in the MTREF (projected operational and capital budgets).

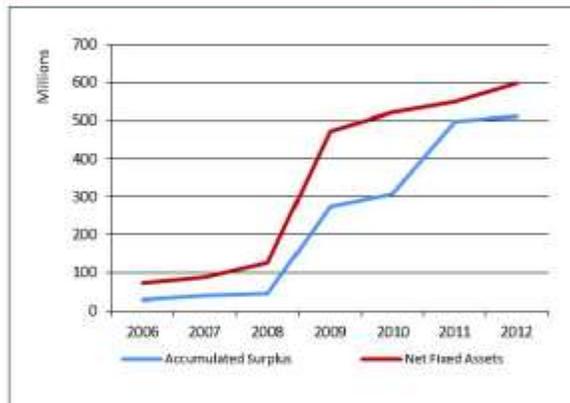
This section documents the actual financial performance (trend analysis) of Hessequa over a 7-year period from 2005/06 to 2011/12. It is noted that during this period Hessequa has continually adjusted and aligned their accounting practices in accordance with the Generally Recognised Accounting Practice (GRAP), as this impacts on the annual comparison of financial performance. For purposes of this report, financial information was reflected per annum as per the audited financial statements. Comparative restated figures were not taken into account.

**DISCLOSURE:** A loan was concluded with Nedbank early in 2012/13 that had been earmarked to fund part of the 2011/12 capital expenditure program. To reasonably reflect Hessequa's financial position for 2011/12 the loan of R 24.6 million has been incorporated into the financial statements provided for 2011/12. Therefore any reference to long term liabilities or cash and investments for the 2011/12 financial year will include the loan disbursed in July 2013.

### Statement of Financial Position

Financial Data: Appendix B

**GRAPH 27: NET FIXED ASSETS VS. ACCUMULATED SURPLUS**



Over the past 7 years Hessequa has invested R 215 million into Property, Plant and Equipment after depreciation charges. However movements in Net Fixed Assets (Property, Plant and Equipment, Investment Property and Intangible Assets) over this term do not simply mirror the investment in infrastructure or the depreciation of assets, as there are significant changes noted in the value of Net Fixed Assets starting in 2008/09 continuing through to 2010/11.

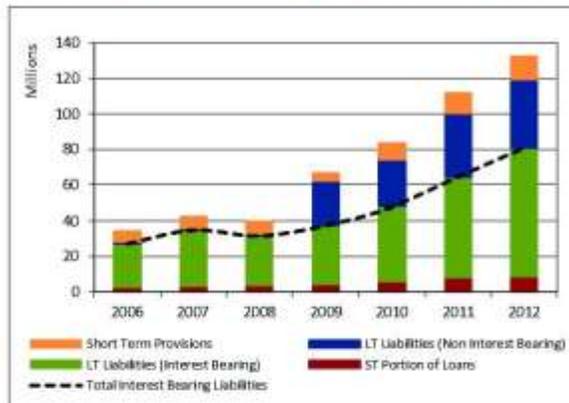
On 1 July 2008 land and buildings were revaluated and infrastructure assets were unbundled and reclassified. Investment Property was accounted for separately from Property, Plant and Equipment. Hessequa elected not to implement a Fair Value Accounting approach with regards to all Property Plant and Equipment, but only selected to fair value Investment Property as required by GRAP.

Hessequa had initially made a transitional provision for Investment Property of R 119 million in 2008/09, however the actual valuation was recorded as R 43 million in 2010/11. In future the trend in changes of Net Fixed Assets is expected to reflect less significant year-on-year changes as the GRAP processes have mainly been concluded. Adjustments will therefore more accurately reflect investments in and depreciation of Property, Plant and Equipment.

In line with the process of revaluing land and buildings a Revaluation Reserve of R 188 million was created thereby increasing Accumulated Surpluses. The full impact of the revaluation of land and buildings in 2008/09 was however only reflected with the R 182 million increase in Accumulated Surplus in 2010/11. During 2008/09 the unfunded Government Grant Reserve was reversed to deferred income, thereby reducing Accumulated Surpluses by R 18 million. These changes are largely reflective of the reform in Hessequa's accounting practices in line with GRAP. With the exception of the impact of these accounting changes, Accumulated Surpluses increased more moderately reflecting operational surpluses posted year-on-year.

It is commendable that Hessequa has and continues to align accounting practices with GRAP. However, the true financial performance of Hessequa needs to be interpreted on a cash flow basis to fully understand the real financial performance and position of Hessequa. The above changes are an illustration that although implementing accounting policies are important, it may not be reflective of the financial health of the organization. The full financial implication of the implementation of accounting practices needs to be assessed in order to manage related financial risks.

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**GRAPH 28: LONG TERM LIABILITIES INTEREST BEARING VS. NON-INTEREST BEARING**

External liabilities were maintained below R 40 million per annum before increasing to R 81 million between 2008/09 and 2011/12. Hessequa actively utilized external funding as a source during this period to implement capital infrastructure as gearing increased to 33% by 2011/12.

In the past seven years the level of external gearing in comparison to the growth in the operational income base from which Hessequa can gear, has been fairly managed at levels of between 20% and 33%. The basis for calculating operational income is however very important as non-operational elements such as conditional revenues and accounting changes need to be excluded.

The maximum industry gearing benchmark is set at 50% (total long term liabilities over operational revenue).

Since 2008/09, the reform of Hessequa's accounting practices as per the GRAP requirements resulted in longer-term provisions now being reported on in the financial statements which include post-retirement health care benefits liability, ex-gratia pension benefit liability and provision for long service awards. Although these liabilities are not interest bearing and do not affect Hessequa's level of external gearing, there is a notable impact on both the level of liquidity required as the short term portion of these provisions need to be backed by cash. There is also a direct impact on the operational expenditure of Hessequa as these statutory obligations will require an annual provision.

A further impact of the implementation of GRAP was the adjustments made to Funds and Reserves. By 2010/11 all unfunded reserves such as the Government Grant Reserve and the Revaluation Reserve were reversed against Accumulated Surpluses. Hessequa did however maintain its cash backed reserves, such as the Housing Reserve, Capital Replacement Reserve, Insurance Reserve and a Disaster Relief Reserve. Between 2005/06 and 2007/08 Hessequa annually contributed approximately R 10 million per annum to these reserves, however between 2008/09 and 2010/11 the level of these reserves remained relatively flat with a decrease noted in 2011/12 to R 31 million which includes the Capital Replacement Reserve of R 24 million. All of the above reserves have been cash backed over the past 7 years although the cash coverage ratio has notably deteriorated, providing an early warning as to the tightening cash flow situation of Hessequa.

It should be noted that since reporting on these statutory obligations from 2008/09 onwards, the level of the long term portion of the obligation has increased by 57% from R 25 million to R 39 million in 2011/12. Of these statutory obligations Retirement Benefit Liabilities constituted R 33.8 million thereof of which R 33.7 million is represented by Post-Retirement Health Care Benefits Liability. The short term provision for these obligations has increased from R 2 million in 2008/09 to R 10 million in 2011/12, largely as a result of the increase in provision for pension fund arrears contribution of R 6.7 million.

These benefits are affected by actuarial valuations as well as by the number of in service members (employees) and continuation members whom are retired. Potential actuarial losses imply an inherent risk of an increases in the Employee Benefit Obligation. This risk is increased as a result of the interest rate cycle being at all-time low as discount rates have decreased. It is four years since interest rates peaked, with prime reaching 15.5% in late 2008. Since then, South Africa has had four years of interest rate declines, prime since July having been 8.5%. Although this bodes well for borrowing, it inversely has a negative impact on investments of any nature.

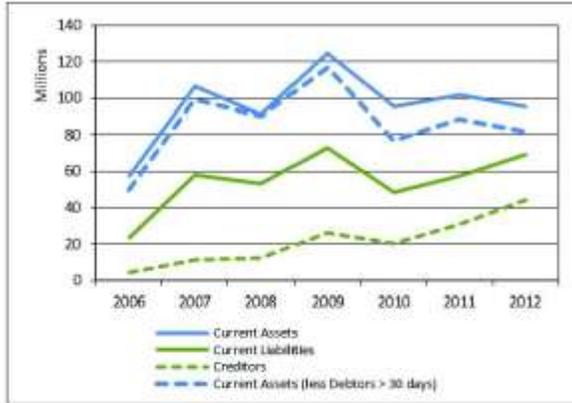
Staff numbers have increased from 416 employees in 2005/06 to 559 employees in 2011/12, representing an increase of 34%. The recruitment of more staff will have a direct impact on these employee benefit provisions in the operating budget and the risk factors need to be taken into consideration. Staff productivity should be a key factor when appointing any new staff.

Whilst annual increases are determined by the National Bargaining Council and the investment environment is not within Hessequa's control, the management of the staff component and the terms and conditions of employment are measures within which Hessequa can influence the impact of increasing Employment Benefits Liability. Benefits need to be realistically aligned with affordable costs and alternatives should be investigated and considered.

The overall management of the related risk factors as reported above remains imperative to mitigate the impact on operational risks.

**GRAPH 29: CURRENT ASSETS VS. CURRENT LIABILITIES**

Benchmark 2:1



The results of the ratio between Current Assets and Current Liabilities reflect directly on the management of Hessequa's liquidity position. As a minimum the current assets should at least cover current liabilities at a ratio of 1:1. For a healthy position the ratio should exceed 2:1. Table 5 below illustrates that Hessequa has managed to maintain levels above 1:1 over the past 7 years with the ratio being above or equal to 1.7:1 in the 2005/06 to 2010/11 period. The ratio has however decreased year-on-year over the past three financial years, before reaching its lowest level of 1.38:1 in 2011/12.

Current Assets have notably decreased from its highest level of R 124.5 million in 2008/09 to R 95 million in 2011/12, mainly as a result of the decrease in cash and short term investments from R 116 million to R 62 million in 2011/12.

In contrast Current Liabilities have increased from R 23.4 million in 2005/06 to R 69.2 million in 2011/12. The increase is partly due to an increase in short term provisions made, however the most significant contributor is the steep increase in creditors from R 4.6 million to R 44.5 million in the same period.

Records indicate that Hessequa's ten largest creditors have increased from R 5.2 million in 2006/07 to R 17.8 million in 2011/12. In relation to the annual total of trade creditors the Eskom account has not increased in percentage terms, however the total amount outstanding to Eskom has more than doubled in the past six years. The bulk of the other creditors on this list of top ten creditors comprise of construction accounts relating to capital expenditure.

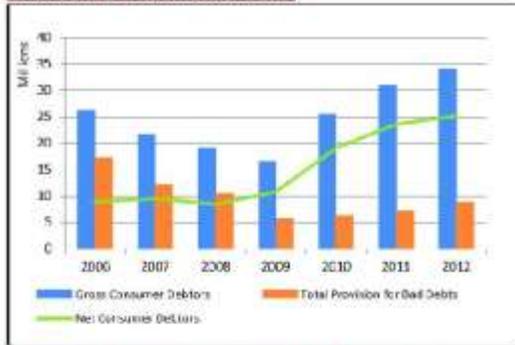
Current Liabilities were historically also impacted on by elevated levels of unspent conditional grants during 2006/07 to 2008/09; this liability was however effectively managed by Hessequa as levels have annually decreased from R 30 million in the past to its lowest level of R 2.8 million in 2011/12.

Should debtors older than 30 days be excluded from the liquidity ratio calculation the ratio remains above the minimum level of 1:1, indicating that within a 12 month period there are sufficient liquidity reserves to repay short term liabilities and cover provisions made should debtors older than 30 days not be collected.

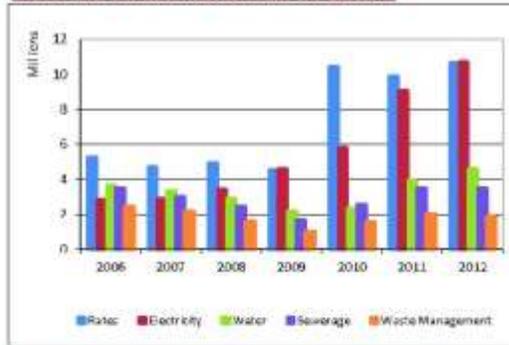
On this basis the ratio levels has been at healthy levels with a slow annual deterioration evident since 2010. This underlines a deterioration in the management of liquidity, and it is recommended that Hessequa manage liquidity by developing and implementing a sound Liquidity Policy against which to manage its liquidity and cash reserves. The management of Current Liabilities remains imperative whilst strengthening and maintaining liquidity.

	2006	2007	2008	2009	2010	2011	2012
Current Assets: Current Liabilities	2.46	1.83	1.71	1.70	1.98	1.77	1.38
Current Assets less Debtors > 30 days: Current Liabilities	2.1	1.7	1.7	1.6	1.6	1.5	1.2

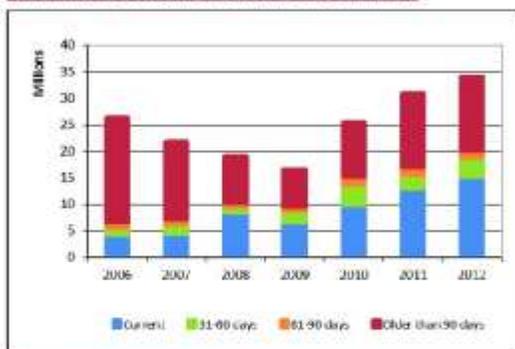
**GRAPH 30A: CONSUMER DEBTORS**



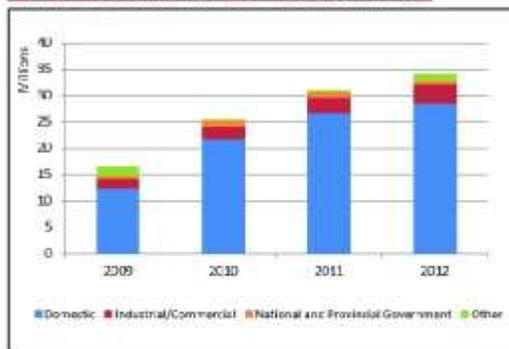
**GRAPH 30B: CONSUMER DEBTORS BY SERVICE**



**GRAPH 30C: CONSUMER DEBTORS AGE ANALYSIS**



**GRAPH 30D: CONSUMER DEBTORS CLASSIFICATION**



**TABLE 6: DEBTORS RATIOS**

	2006	2007	2008	2009	2010	2011	2012
Debtors Payment Ratio (excluding equitable share)		95%	96%	97%	93%	96%	97%
Provision for debtors older than 90 days	88%	84%	121%	80%	61%	52%	64%

With reference to **Graph 30A**, from 2005/06 to 2008/09 Net Consumer Debtors remained relatively flat at around R 10 million. From 2009/10 onwards a steady annual increase can be noted in Gross Consumer Debtors. Visibly provisions for consumer debtors are held at lower levels than between 2005/06 and 2008/09, indicating that Hessequa is confident it will collect on the arrears. **Table 6** above underpins that Hessequa has actively implemented its Credit Control Policy with collections levels mostly above 95%, with the exception of lower levels evident in 2009/10 due to the implementation of the new general valuation roll. Notably levels have improved in the past two years. These practices are commendable and should be maintained. The Payment Ratio calculation in **Table 6** is based on the annual growth in Consumer Debtors including debts written off over Billed Income, excluding Equitable Share receipts.

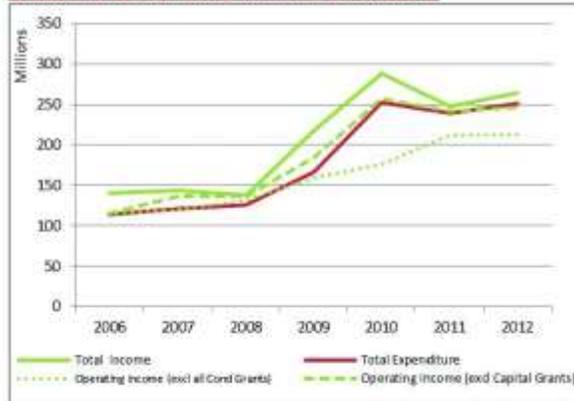
**Graph 30B** indicates the composition of Consumer Debtors by service type. It is noted that the growth pattern is in line with the steady and strong growth in the income derived from Electricity charges and Property Rates since 2006/07 as can be seen in **Graph 32** on page 18. The impact of increased consumer billings is evident in the increase in outstanding current accounts. Most significant is the escalation in Consumer Debtors from 2009/10 onwards. In 2009/10 the implementation of the new general valuation roll negatively impacted on arrears on Property Rates. Property Rates debts stabilized subsequently, but Hessequa has not been able to recover these debts and it should be considered whether provisions in this regard are sufficient. This trend needs to be closely monitored with the implementation of the next general valuation on 1 July 2013 should it significantly impact on property rates charges. The impact of the increases in bulk charges for Electricity can also be noted on the annual growth in Consumer Debtors between 2008/09 and 2011/12. The provisions made for this service should also be reviewed annually.

With reference to **Graph 30C**, Consumer Debtors older than 90 days constituted 41% of the total Consumer Debtors in 2011/12, with the bulk of debtors situated in current debtors at 44%. From **Table 6** above it can be seen that Bad Debt Provisions in relation to Consumer Debtors older than 90 days has decreased from historic levels of more than 100% and presently is at 64%, indicating that Hessequa anticipates collecting 36% of these debts. Provisions are considered too low and need to be reviewed and Hessequa should actively impair irrecoverable debts.

## Statement of Financial Performance

Financial Data: Appendix C

**GRAPH 31: TOTAL INCOME VS. TOTAL EXPENDITURE**



Total Income to Total Expenditure has been well managed, as Total Income has annually exceeded Total Expenditure. From 2008/09 to 2009/10 there was a significant increase in the income base of Hessequa which is mainly reflective of large conditional operational grants received from National Government. Post 2009/10 these operational transfers decreased and income has increased more gradually from 2010/11 to 2011/12. Hessequa's ability to manage its operational expenditure effectively is a key performance area to be maintained.

It must be noted that Total Income includes both capital and operational conditional grant funding from National and Provincial Government which may not be used for standard operational expenses or for the repayment of external loans.

For the purposes of determining the operational revenue base from which Hessequa can gear for external funding, all conditional income will be excluded from Total Income as can be seen in **Graph 31** above. In this graph Hessequa's income base is reflected not only as Total Income but also as Income less capital transfers and Income less all conditional transfers. The curve excluding all conditional transfers indicates the actual base from which Hessequa should calculate its acceptable level of gearing. It should further be noted that the income curve excluding all conditional transfers has been flattening.

The widening between the income and expenditure curves between 2008/09 and 2009/10 may seem positive, but during these financial years there were larger pools of unspent conditional grants. Improved spending of conditional transfers has contributed to expenses being closely aligned with income in the past two financial years.

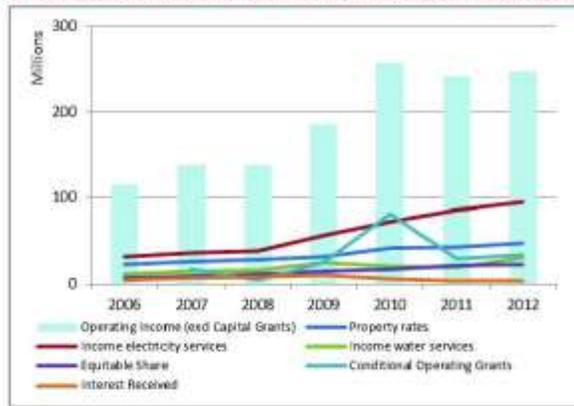
In **Table 7** below, Hessequa's ability to generate operational surpluses is measured over the past 7 years based on the following three methodologies:

- **Total Accounting Surplus or Deficit** measures whether income from all sources exceeds total expenditure incurred, the calculation however includes earmarked operational and capital conditional funding received as well as accounting changes. On this basis Hessequa posted healthy surpluses year-on-year, although the degree of the surplus has decreased in the past two financial years.
- Should all conditional funding of a capital nature however be excluded from the calculation an **Accounting Operating Surplus/ (Deficits)** would be derived and on this basis Hessequa posted accounting operational surpluses year-on-year with the exception of the last financial year. It can be noted that Accounting Operating Surplus has been steadily decreasing before posting a deficit in 2011/12.
- On a cash basis, once all non-cash items are removed from the operational expenditure Hessequa has indicated its ability to post **cash operational surpluses**, which is of great importance. In 2007/08 and 2009/10 however Hessequa posted a cash operating deficit, reasons for these deficits need to be understood and will be further analysed in the **Cash Flow Forecast** on page 26. Specific reference is made to 2011/12 confirming that although the accounting deficit reflects a negative performance, on a cash basis Hessequa posted a surplus of R 15 million. This is positive, however going forward it is recommended that Hessequa determine to which degree the cash surpluses are earmarked for provisions and reserves such as the Capital Replacement Reserve, Employee Benefit Reserve etc.

<b>TABLE 7: ANALYSIS OF SURPLUS</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Total Accounting Surplus (Deficit)	25.62	22.42	12.43	51.07	36.23	7.68	13.34
Accounting Operating Surplus (Deficit)	0.38	15.55	11.46	18.08	4.63	1.52	-3.97
Cash Operating Surplus (Deficit)	23.72	46.49	-14.62	23.90	-18.48	20.45	15.25

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**GRAPH 32: CONTRIBUTION PER INCOME SOURCE AS A PERCENTAGE OF OPERATING INCOME (EXCL CAPITAL GRANTS)**



As can be seen in **Table 8** below there are three basic sources available to Hessequa to generate its own income, being the levying of Property Rates and the selling of Electricity and Water. In total these sources are responsible for 70% of Operational Income (excluding Capital Grants) as at 30 June 2012. This is at its highest levels in 7 years, largely as a result of Electricity Services increasing from 28% to 39% of Total Income (excluding Capital Grants).

Equitable Share contributed 6% to the operating revenue of Hessequa 7 years ago, and has marginally increased annually to a level of 9% at present. Changes for Hessequa in the formula for calculating equitable share should be monitored. More notable is the increase in conditional operational funding received from National Treasury, in particular in 2009/10. The elevated levels of conditional operational transfers are a good indicator of National

Treasury comfort in the management capacity of Hessequa.

	2006	2007	2008	2009	2010	2011	2012
Equitable Share	6%	7%	8%	8%	6%	9%	9%
Conditional Operational Grants	0%	13%	4%	13%	32%	12%	14%
Property Rates	20%	19%	20%	17%	16%	18%	19%
Service Charges – Electricity	28%	27%	28%	30%	28%	35%	39%
Service Charges – Water	10%	11%	11%	13%	8%	8%	12%
Interest earned on investments	4%	5%	6%	6%	2%	2%	1%

	2007	2008	2009	2010	2011	2012
Equitable Share	34%	19%	31%	12%	29%	9%
Conditional Operational Grants	0%	0%	0%	231%	-64%	16%
Property Rates	13%	7%	13%	30%	3%	10%
Service Charges – Electricity	15%	6%	44%	29%	18%	11%
Service Charges – Water	31%	6%	58%	-17%	-3%	55%
Interest earned on investments	58%	7%	36%	-43%	-33%	-9%

The implementation of the new general valuation on 1 July 2009 provided Hessequa with a steeper year-on-year increase in 2009/10 (30%). However simultaneously the debtors' payment level was negatively affected, elevating debtors accounts from this income source. Hessequa reacted positively to the response of its consumers and in 2010/11 the income from Property Rates only increased by a moderate 3%, followed by an increase of 10% in 2011/12.

During the reporting period from 2005/06 to 2011/12 the total property valuations increased by 319% from R 3.34 billion to an interim valuation of R 14.01 billion. The last general valuation was implemented on the 1<sup>st</sup> of July 2009 and totaled R 13.96 billion. Between 1 July 2009 and 30 June 2012 based on interim valuations, property values have not increased over the past three years. With the next general valuation to be implemented on 1 July 2013, one may see a flattening or even a decrease in the property values, which may negatively impact the growth in Property Rates charged to the consumer.

The impact of continued increases in Electricity tariffs from Eskom will have to be monitored, as it may negatively impact on the consumers' ability to pay for the services as well as Hessequa's ability to collect. It is also important to measure the annual increase per income sources as depicted in **Table 9** above. The annual increases in the revenue from Electricity Services, Water Services and Property Rates have generally been above inflation. The trend in Property Rates and Electricity Services increases seems to have stabilized, however Water Service Charges increased by 55% in 2011/12. This is considered an anomaly as the region experienced droughts in the two previous years which negatively impacted on water sales. The impact of increased Eskom tariffs needs to be monitored.

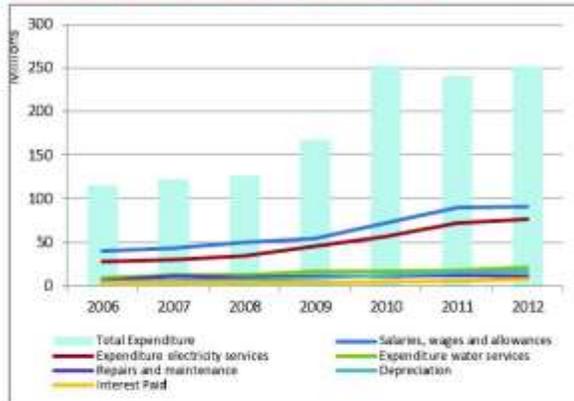
At its peak interest earned on investments contributed 6% to Total Income (excluding capital grants), but has reduced to a contribution of 1% due to cash resources having reduced coupled with the investment cycle being at very low levels. The performance of the appointed Investment Manager needs to be appraised and reviewed.

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As an alternative to increase the revenue from Property Rates and service charges through tariff increases, it is recommended that the Investment Property portfolio be reviewed in order to earmark the assets with the best economic development potential for further development that could increase the income base in future. Such longer-term initiatives will assist Hessequa in growing the revenue base from which it can manage expenses, gearing and cash while managing the affordability of tariffs for residents at the same time.

Given the importance of Electricity sales in relation to Hessequa’s revenue base, it will make sense to invest in this productive infrastructure to enlarge the income base and also to enlarge the scope for new developments to take place.

**GRAPH 33: CONTRIBUTION PER EXPENDITURE ITEM**



With reference to **Table 10** Salaries and Wages remains Hessequa’s largest expense, but the level in relation to expenditure has been declining annually from its highest level of 40% in 2007/08 to 36% in 2011/12. Levels did however increase in 2010/11 when Salaries, Wages and Allowances increased sharply by 30%. In 2011/12 notably there was only a 1% increase in this cost.

Prior to the steep increases in electricity costs, the acceptable industry norm for staff cost to total operating expenditure was set at 35%. In recent years with the inclusion of the higher electricity costs the ratio has decreased to around 30%. Hessequa performs above the sector averages, however when compared to its peers in **Graph 60** on page 36. Hessequa is performing at an acceptable level.

	2006	2007	2008	2009	2010	2011	2012
Salaries, wages and allowances	35%	36%	40%	33%	29%	38%	36%
Expense - Electricity services	25%	24%	27%	27%	22%	30%	31%
Expense - Water services	8%	11%	10%	10%	7%	7%	9%
Repairs & maintenance	5%	9%	7%	7%	5%	5%	4%
Depreciation	4%	4%	5%	6%	5%	7%	7%
External Interest Paid	3%	3%	3%	2%	2%	2%	3%

	2007	2008	2009	2010	2011	2012
Salaries, wages and allowances	9%	13%	11%	31%	25%	1%
Staff Productivity	3	3	4	4	3	3
Expense - Electricity services	5%	13%	25%	20%	22%	6%
Expense - Water services	28%	-7%	-29%	2%	3%	18%
Repairs & maintenance	97%	-24%	29%	4%	8%	-12%
Depreciation	21%	21%	43%	40%	22%	8%
External Interest Paid	-2%	18%	-11%	33%	31%	36%

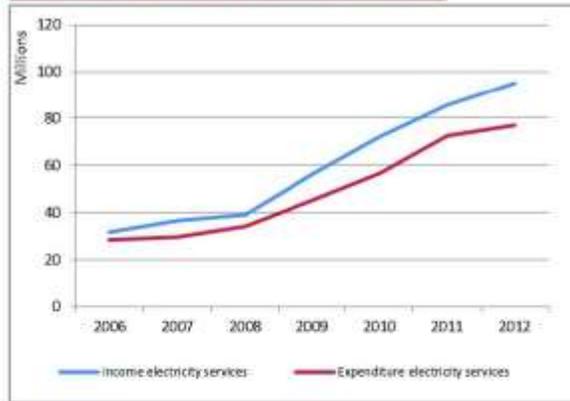
Staff productivity improved from a 3 to 4 between 2008/09 and 2009/10, before leveling back at 3 times, which could be as a result of staff members increasing as noted on **page 14**. Staff productivity indicates income earned per Rand spent on employee related costs. This however remains an area for continued strategic management to balance the costs versus benefits, as year on year increases at levels above inflation may not be sustainable in the longer-term. Employees are both the largest resource and expense of Hessequa, therefore the stringent management thereof can most significantly (positively or negatively) impact on the overall finances of Hessequa.

Between 2008/09 and 2010/11 Hessequa took up R 46 million in external loans at rates between 10.50% and 11.50%. As disclosed at the start of the financial analysis Hessequa entered into a loan agreement with Nedbank in July 2012, and borrowed R 24.6 million at an interest rate of 9.06% thereby lowering the average interest on loans from 10.76% to 10.23%. External Interest as a percentage of Total Expenditure is used as one of the benchmarks to determine the level of external debt that can be absorbed. In this regard, this ratio is capped at a level of 7.5% and Hessequa is presently at its highest level at 3%.

The Reserve Bank has cut the prime interest rate significantly over the past few years, which has benefited Hessequa as can be seen from reduced lending rates obtained from Nedbank. The interest rate cycle is anticipated to remain flat for at least the next 12 months

and it remains a beneficial time to borrow external funds. However the market and movement in interest rates should actively be monitored by Hessequa.

**GRAPH 34: ELECTRICITY: INCOME VS. BULK CHARGES**

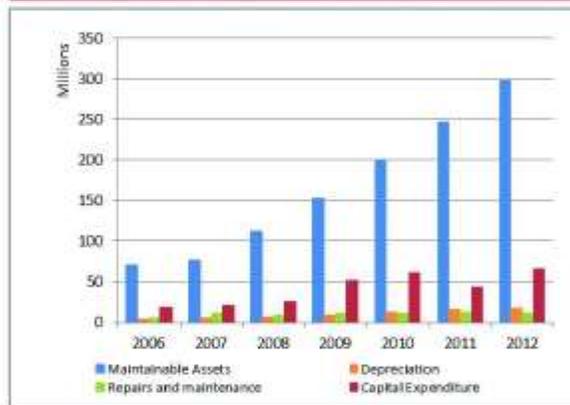


The second largest operational expense for Hessequa is the rising cost of providing Electricity Services to its community. The rising cost of Eskom tariffs have significantly impacted on Hessequa’s operational expenses from 2008/09 onwards.

However when compared to the increase in the income from Electricity Services, this is still a source to generate surplus funds from as the increase from the income thereof outweighs the increase in expense. The costs have also stabilized in the past financial year, and it has been confirmed that NERSA has increased Eskom’s tariffs by 8% per annum for the next three years, as opposed to the 16% per annum increase requested by Eskom.

The profit margin earned on Electricity should however be monitored to not negatively impact on the consumer.

**GRAPH 35: REPAIRS AND MAINTENANCE & DEPRECIATION IN RELATION TO FIXED ASSETS**



Repairs and maintenance costs as a percentage of Total Expenditure, has annually decreased from a level of 9% to 4% in 2011/12. In comparison Repairs and Maintenance has decreased as a percentage of the Maintainable Assets (Fixed Assets excluding Land, Investment Property and Intangible Assets). This ratio has been decreasing year on year from its highest level of 15% in 2006/07 to 4% in 2011/12.

These levels are however impacted by the growing asset base as Hessequa has invested R 286 million into infrastructure assets over the past 7 years, and the asset base has also been adjusted post the revaluation of assets. It has to be determined whether the present level of repairs and maintenance spent is sufficient to maintain the increased asset base.

Although there have been large capital investments into the infrastructure assets of Hessequa within the past 7 years, it is important that Repairs and Maintenance be adjusted upward over the medium term based on the comprehensive and GRAP 17 compliant Asset Register that has been compiled by Hessequa. The Asset Register provides an in-depth review of the long-term repairs & maintenance and capital replacement program required for all Fixed Assets and should inform future capital spending patterns. It will however be underpinned by the annual contribution required to the Capital Replacement Reserve from the operational budget.

From the latest Municipal Budget Circular released by National Treasury for the 2013/14 MTREF cycle it can be noted that National Treasury recommends that Councils take into consideration that the Repairs and Maintenance should be at least 8% of the asset value (write down value) of Property, Plant and Equipment. Applying this calculation to Hessequa’s 2011/12 financial results, it can be ascertained that Hessequa only spent 1.8% in comparison to the 8% recommended. Furthermore, National Treasury sets 10% of operating expenditure as a benchmark to ensure the ongoing health of the municipality’s infrastructure supported by reference to its asset management plan. From the comprehensive Asset Register it can be summarised that as at 30 June 2011, Hessequa had approximately 14,979 assets and that 92% of these assets were in a fair to very good state with only 8% of assets being in a poor to very poor state. Continued and adequate maintenance will ensure that assets reach and/or exceed its useful life as the repairs and maintenance strategy will determine the capital investment required in future.

The Depreciation Charges have been relatively constant at 6% of depreciable assets. As a percentage of Total Expenditure the annual charge has moderately increased from 4% to 7%. The impact of bringing depreciation charges in line with GRAP has put more pressure on Hessequa’s operational expenditure budget and although the item is not a direct cash outflow, it is advisable that the amount

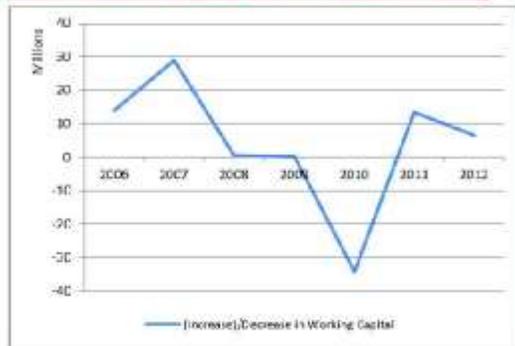
deducted for Depreciation be retained in cash for future maintenance and replacement of infrastructure. This objective should be a long term goal for Hessequa. Hessequa has made provision for a Capital Replacement Fund, but the Fund has not grown in recent years and should be replenished by the transfer from charges for depreciation.

**Cash Flow Statement**

Financial Data: Appendix C

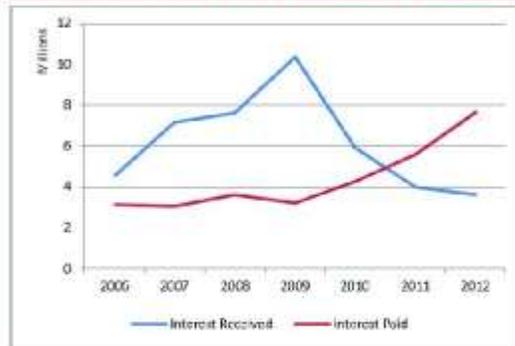
In this section it is important to ascertain whether Hessequa generates surplus cash from its operational activities per annum, as well as to assess to which degree the surplus cash generated is invested back into new capital infrastructure and/or reserved in investments. Furthermore it is to assess the financial resources that are at Hessequa’s disposal for investment in capital infrastructure and to which degree these resources are optimally leveraged to accelerate service delivery whilst maintaining a financially sound position.

**GRAPH 36: CASH IMPACT OF WORKING CAPITAL CHANGES**



Hessequa’s changes in working capital have generally been positive if not flat, however in 2009/10 the movement was negative as debtors steeply increased post the implementation of the general valuation. In general debtors have been well managed, however the positive movement in working capital is as a result of an increase in current liabilities. Whilst unspent conditional grants have declined to below R 5 million, creditors have increased to R 45 million (from R 5 million in 2005/06).

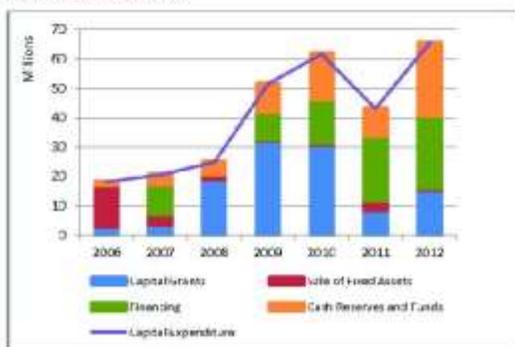
**GRAPH 37: INVESTMENT INCOME VS. EXTERNAL INTEREST PAID**



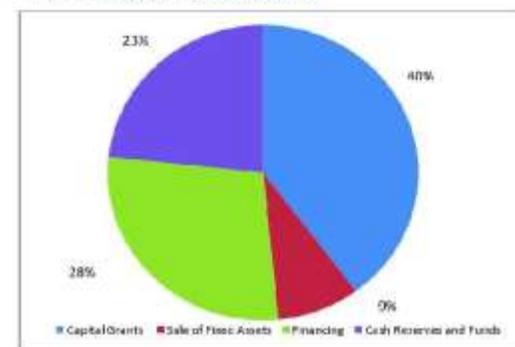
Liquidity levels have declined therefore the decrease in investment income which is further compounded by the low interest rate cycle. Instruments invested in should be reviewed on an annual basis in order to ascertain whether there are other low risk products that may yield higher interest rates within the permitted investment regulations. The interest paid on external loans have steadily increased from below R 4 million to approximately R 8 million per annum due to the utilisation of external funding.

**GRAPH 38: FUNDING RESOURCES UTILISED TO FUND CAPITAL EXPENDITURE**

**GRAPH 38A PER ANNUM**



**GRAPH 38B AGGREGATE OVER 7 YEARS**



Over the past 7 years, Hessequa has invested R 286 million into capital infrastructure, funding the bulk of investments with capital grants received from National and Provincial Government (40%), in combination with own cash generated (23%) and external loans

obtained from the market (28%). The sale of fixed assets has only contributed 8% to the funding of capital infrastructure, and although this is an option to consider, it may be more fruitful to investigate the development of Investment Properties to increase the income base of Hessequa. As at 30 June 2012, Hessequa had Investment Property to the value of R 43 million, Hessequa also had Land and Buildings to the value of R 257 million. On a sensible and in a sustainable manner this resource can be unlocked for both capital and economic investment in the municipal area.

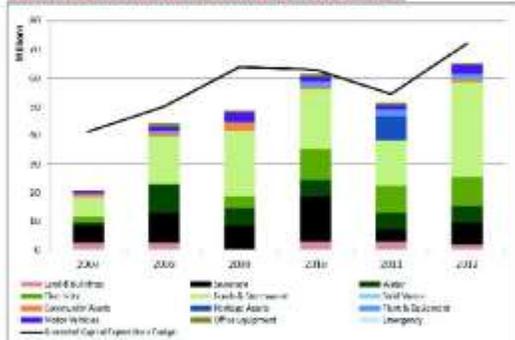
Capital spending increased sharply in 2008/09 from below R 30 million in the past to above R 50 million per annum. In 2008/09 and 2009/10 capital transfers were elevated, but decreased in the following two financial years. In 2010/11 capital expenditure decreased to R 54 million and was funded largely by external financing. In 2011/12 a more balanced approach was used, utilising external funds, own cash and grant funding.

In the medium term it is anticipated that capital expenditure will be funded from similar sources although healthy liquidity levels should be maintained and cognisance should be taken of the fact that Financial Institutions remain nervous to invest in municipal long term projects, and with the negative publicity on the financial affairs of local government is resulting in the investors being even more selective about the municipalities they invest in. With increased rigidity in credit processes foreseen, it is expected that risk margins will also increase and thus influence the pricing of loans advanced. Therefore it remains imperative to provide financial institutions with comfort that Hessequa is managing the various credit risk factors mentioned in this report.

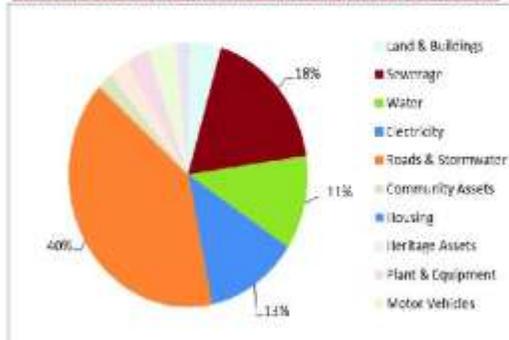
*Based on the financial position of Hessequa as at 30 June 2012 taking inflation into account it has been estimated that over the next 10 years Hessequa should be able to spend in the order of R 800 million on capital infrastructure from R 320 million external loans, R 190 million own cash and R 300 million capital transfers. At current prices, this equates to a 10 year investment of R 600 million.*

Taking the above into account, Hessequa should not within the next MTREF cycle exceed capital spending perimeter of between R 60 to 80 million per annum with a blend of funding from no more than R 24 to 32 million external loan funding, R 14 to 19 million own cash resources and R 22 to 30 million capital transfer. These estimated guidelines are subject to Hessequa maintaining healthy cash levels and operational surpluses, as well as subject to receiving capital transfers and maintaining healthy gearing levels. Should the capital markets change, the assumptions will be affected. Therefore these estimations should be reviewed regularly within the MTREF cycle.

GRAPH 39A: CAPITAL SPENDING BY ASSET TYPE



GRAPH 39B: CAPITAL SPENDING BY ASSET TYPE OVER GYRS



As can be seen in **Table 12** below, in the past 6 years Hessequa has annually spent between 50% and 98% of the adjusted capital budgets as approved. Between 2006/07 and 2008/09 spending levels were below 90% but improved well in 2009/10 and 2010/11. Although the spending level is still above 90% in 2011/12 there has been a declining trend over the past three financial years. With reference to **Graph 39B** the bulk of capital investments are being made into infrastructure assets. Infrastructure Assets constituted 46% of Property, Plant and Equipment in 2011/12, whilst 87% of capital spending in this year related to investment into infrastructure assets.

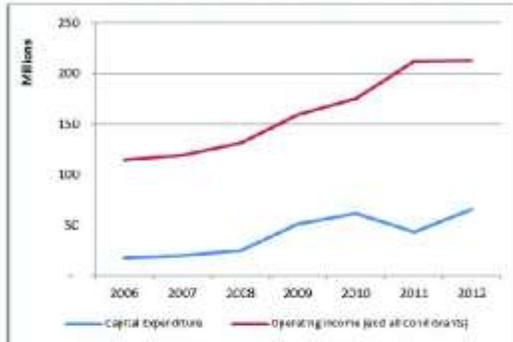
The per person capital spend based on annual population size has increased from R 370 per person in 2005/06 to R 1,245 per person in 2011/12.

The four major groups of infrastructure assets are with regards to Electricity, Water, Roads and Sewerage Assets and although there have been investments into this group of assets, the largest investments are being made into Roads and Stormwater Assets (40%).

With reference to the latest MFMA Circular No. 66 by National Treasury, it is proposed that 40% of annual capital expenditure be allocated to the renewal of existing assets to secure the ongoing health of the infrastructure assets of the municipality. This should be reflected on with regards to the proposed capital budgets for the next MTREF cycle based on the allocations made for the renewal and refurbishment of assets vs. the investment proposed for new assets.

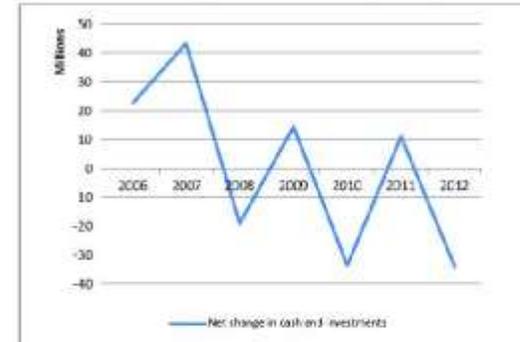
TABLE 12: CAPITAL SPENDING AGAINST BUDGET	2007	2008	2009	2010	2011	2012
Capital Expenditure vs. Capital Budget	50%	89%	76%	98%	95%	91%

GRAPH 40: CAPITAL EXPENDITURE VS. OPERATING INCOME



The operational revenue base of Hessequa has steadily increased over the past 7 years before flattening in 2011/12. In comparison Capital Expenditure has shown an inclining trend, growing from R 20 million to R 70 million per annum. The level of investment is considered reasonable considering that the use of external gearing is moderate and that Hessequa needs to improve liquidity levels in the medium term.

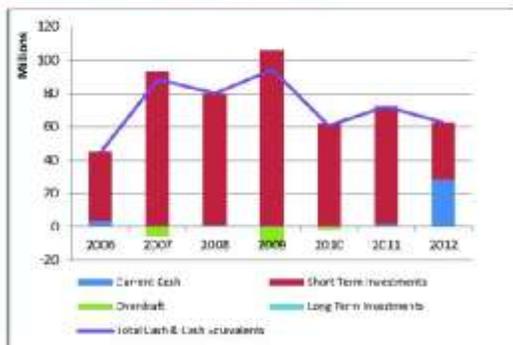
GRAPH 41: NET CHANGE IN CASH AND INVESTMENTS



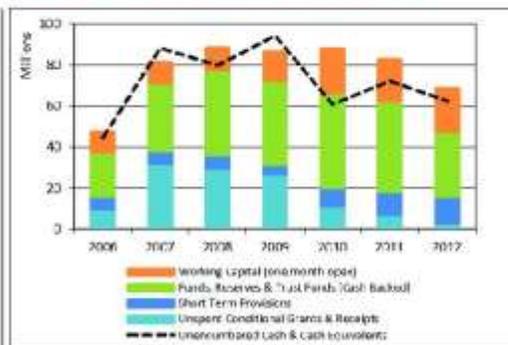
Total Cash and Investments have always remained positive, even in years where negative cash book balance were posted. From the **Graph 41** it can be noted that Hessequa has annually alternated between investing surplus cash funds into reserves and capital spending. In the medium term adequate liquidity levels need to be maintained, which may reduce the investment of cash generated into capital spending, therefore limiting negative swings in cash and investment balances.

GRAPH 42: DETERMINATION OF ADEQUATE LIQUIDITY LEVELS

GRAPH 42A: CASH AND CASH EQUIVALENTS



GRAPH 42B: LIQUIDITY REQUIREMENTS VS. FREE CASH



Hessequa has managed to maintain positive cash levels over the past 7 financial years. Cash and Investments totaled R 38.06 million as at 30 June 2012, and for realistic reflection should the loan received in July 2012 be included, the total increases to R 62.66 million. No investments have been ceded for redemption of loan advances, however the following items should be cash backed:

- Unspent conditional grants
- Earmarked Funds, Reserves & Trust Funds (Housing-, Capital Replacement-, Insurance- and Disaster Relief Reserve)
- Short term provisions (Employee Benefit Liabilities)

However, National Treasury prescribes that in addition to holding cash for the above statutory requirements, an acceptable level of cash resources need to be available for working capital requirements and it should equate to at least 3 months of operational expenditure. As a starting point, to maintain a healthy cash position it is recommended that Hessequa set a benchmark to at least hold one month's available cash in addition to earmarked funds. This benchmark can be increased to two months operational expenditure in the medium term.

On this basis as per the estimation below in **Table 13** and based on the financial statements for the year ending 30 June 2012, Hessequa could reasonably set the minimum required liquidity level at R 70 million.

<b>TABLE 13: CASH COVERAGE RATIO</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Unspent conditional grants	10.28	32.12	29.91	27.20	11.31	6.93	2.84
Short term provision	5.87	6.17	6.66	4.30	9.14	11.24	13.26
Funds, Reserves & Trust Funds (Cash Backed)	21.55	32.57	41.08	40.98	46.28	44.48	31.43
<b>Total</b>	<b>37.70</b>	<b>70.86</b>	<b>77.65</b>	<b>72.48</b>	<b>66.73</b>	<b>62.65</b>	<b>47.53</b>
Unencumbered Cash & Cash Equivalents	45.00	88.34	79.89	94.41	60.90	72.12	62.66
<b>Cash Coverage Ratio (excl Working Capital)</b>	<b>1.19</b>	<b>1.25</b>	<b>1.03</b>	<b>1.30</b>	<b>0.91</b>	<b>1.15</b>	<b>1.32</b>
Working Capital Provision (1 month Opex)	9.52	10.13	10.46	13.86	21.04	19.98	20.90
<b>Cash Coverage Ratio (incl Working Capital)</b>	<b>0.95</b>	<b>1.09</b>	<b>0.91</b>	<b>1.09</b>	<b>0.69</b>	<b>0.87</b>	<b>0.92</b>
Minimum Liquidity Required	47.22	80.99	88.11	86.34	87.76	82.63	68.43
<b>Cash Surplus/(Shortfall)</b>	<b>-2.23</b>	<b>7.34</b>	<b>-8.21</b>	<b>8.07</b>	<b>-26.86</b>	<b>-10.50</b>	<b>-5.76</b>

Based on these assumptions, Hessequa historically held sufficient liquidity levels to provide for all statutory requirements and could mostly provide for 1 month's operational expenditure. However liquidity levels have come under pressure in 2009/10 as statutory requirements were not sufficiently covered. The cash coverage ratios including 1 month's working capital has remained below 1 times for the past three years, however it can be positively reported that this ratio has steadily been improving and with an injection of R 6 million, liquidity will be restored to the minimum acceptable level of 1:1. Liquidity levels should also be cross referenced to the liquidity ratio as discussed on **page 15**. It is attainable for Hessequa to restore its liquidity levels. As at 31 December 2012, it has been reported that cash and investments totalled R 71.57 million.

Cash and Investment Management will require active revision of the assumptions as outlined in the calculation above. Reserves will increase according to operational allocations made annually, while the annual increase in the operating budget will have to be factored into at least an annual review of the benchmark.

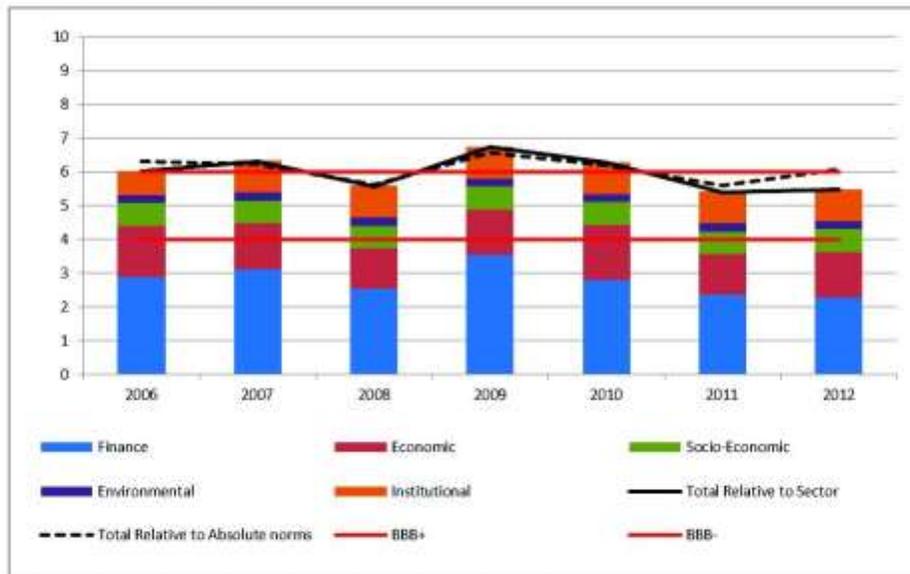
As indicated in **Table 7** on page 17, Hessequa has the operational ability to post cash operating surpluses, it will become more important how cash surpluses are allocated and accounted for. In the short-term this may impact on Hessequa's own cash contribution to capital funding as referred to under **Graph 38** on page 21. With the exception of contributing to 20% of MIG funded capital projects it is recommended that operational surpluses and cash resources be reserved in the short term to attain the required liquidity levels. This strategic approach should be reviewed on an annual basis.

## Credit Score

The Model calculates a credit score per annum considering the following factors in order of weighting: Finance, Economic, Institutional, Socio-Economic and Environmental. Although financial performance outweighs the other factors, the other factors are by no means considered less important. Institutional strength and stability is as important to the sustainability of a municipality as financial performance and a sizeable economic base. The individual credit score for each municipality is calculated through scoring its performance firstly against its peers to derive a relative to sector score and secondly against our own predefined norms to derive an absolute score. The score is totaled out of 10 and is compared to national ratings on the following scale:

Score	National Ratings Scale	Grading
8 to 10	AAA+ to AA-	Investment Grade
6 to 8	A+ to A-	Investment Grade
4 to 6	BBB+ to BBB-	Investment Grade
0 to 4	< BB+	Non-Investment Grade

**GRAPH 43: HESSEQUA HISTORICAL CREDIT SCORE**



Relative to the Municipal Sector, Hessequa has effectively indicated its ability to manage and improve on its credit score as the score was improved and maintained at a level of A- from 2005/06 to 2009/10 with the exception of a deterioration in 2007/08. However in 2010/11 the ratio deteriorated to BBB+ as gearing increased and liquidity started declining. In 2011/12 the score was maintained. Relative to IPM's norms there has been an improvement in Hessequa performance in 2011/12, which indicates that the score can be re-established as a category A- in future should the necessary risks be monitored.

The movement may seem minimal, but from the perspective of a financial institution the trend is positive especially when compared to the overall downgrade in municipal credit.

The rating must actively be monitored annually, in order to ensure that these levels are maintained and improved upon. Based on this assessment, it is believed that external lenders will view Hessequa as a BBB+ long term credit risk. In the second half of 2011/12, it has become evident that the Capital Market is still very risk averse and very selective of the municipal projects considered for investment.

Financial Institutions have shifted their focus to single A grade and higher rated institutions with the maximum duration of lending reduced to 15 years on preferably an annuity basis. In the past two years credit risks spreads over base rates have moved out with between 50bp to 100bp, although this has been counteracted by decreasing base rates. It remains beneficial to borrow in the present low interest rate cycle.

Some municipalities in the BBB band were unable to obtain funding due to a lack of sufficient financial information being provided to the Financial Institutions, perceptions have further been worsened by wide spread reports of qualified audited financial reports on local municipalities. The commercial banks and other financial institutions are making credit processes more rigid and primarily take comfort from healthy liquidity levels and a stable and capable management capacity.

Hessequa will have to continue providing the Capital Market with comfort that its financial and administrative affairs are in order to continue attracting reasonable investments at competitive rates. As Hessequa mainly has exposure to the Development Bank of SA and First National Bank it is recommended that relationships with all Commercial Banks active in this environment be improved and maintained. It is a positive indicator that a loan has recently been obtained from Nedbank at very competitive rates, thereby broadening Hessequa's interested investors.

## 6. CASH FLOW FORECAST

In this section the MTREF for 2012/13 to 2013/15 is plotted against the historical and actual financial performance of Hessequa over the past 4 years. The assumptions made in the MTREF are extrapolated to project Hessequa's anticipated performance over a period of 5 years. The exercise is used as a reference point from which to verify the budget assumptions made by Hessequa in the MTREF. Besides verifying the budget assumptions, the Cash Flow Forecast will also indicate the impact of implementing the objectives of the MTREF on the overall cash flow of Hessequa. Under the second part of this chapter in the report the projections will be amended to project a more moderate scenario based on key findings of the assessment of the MTREF and will include the latest draft 5-year capital program.

### Review of the approved MTREF from 2012/13 to 2014/15

The following data has been used with an indication of annual increases/ (decreases) and is plotted graphically. The data is to be used for cross referencing (Rm).

Table 14: Forecasted Operational Performance	Historical Financial Data				5 Year Cash Flow Forecast				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property rates	31.81	41.37	42.63	47.06	51.86	58.11	63.94	70.34	77.37
		30%	3%	10%	10%	12%	10%	10%	10%
Equitable Share & Conditional Operational Grants	39.28	97.69	50.17	56.80	50.80	46.19	49.62	52.10	54.71
		149%	-49%	13%	-11%	-9%	7%	5%	5%
Interest Income	10.36	5.90	3.97	3.61	4.02	4.14	4.26	4.39	4.52
		0%	-33%	-9%	11%	3%	3%	3%	3%
Income electricity services	56.10	72.28	85.64	95.32	94.71	116.13	134.76	156.32	181.34
		29%	18%	11%	-1%	23%	16%	16%	16%
Income water services	24.54	20.27	19.75	30.57	29.93	28.27	34.91	38.40	42.24
		-17%	-3%	55%	-2%	-6%	23%	10%	10%
Other service charges and income	22.31	19.53	39.14	13.44	39.44	47.86	51.53	54.10	56.81
		-12%	100%	-66%	193%	21%	8%	5%	5%
<b>Total Revenue (excl capital transfers)</b>	<b>184.41</b>	<b>257.05</b>	<b>241.30</b>	<b>246.00</b>	<b>270.75</b>	<b>300.71</b>	<b>339.02</b>	<b>375.65</b>	<b>416.98</b>
		39%	-6%	2%	10%	11%	13%	11%	11%
Salaries, wages and allowances	54.91	72.13	90.18	91.36	101.81	107.23	112.94	118.59	124.52
		31%	25%	1%	11%	5%	5%	5%	5%
Expenditure electricity services	45.38	56.61	72.62	77.07	78.45	87.67	98.34	110.15	123.36
		25%	28%	6%	2%	12%	12%	12%	12%
Expenditure water services	16.70	17.10	17.71	21.70	18.38	19.71	21.14	22.62	24.21
		2%	4%	23%	-15%	7%	7%	7%	7%
Debt Impairment	1.27	2.11	3.39	3.72	3.09	3.28	3.47	3.68	3.90
		66%	61%	10%	-17%	6%	6%	6%	6%
Depreciation	9.15	12.77	15.60	16.79	17.74	19.70	21.96	24.37	27.05
		40%	22%	8%	6%	11%	11%	11%	11%
Repairs and maintenance	11.13	11.55	12.48	11.03	12.51	13.60	14.62	15.64	16.74
		4%	8%	-12%	13%	9%	7%	7%	7%
Interest paid on external loans	3.21	4.26	5.60	7.63	9.41	10.45	11.66	12.82	14.10
		33%	31%	36%	0%	11%	12%	10%	10%
General expenses	24.57	75.89	22.20	21.48	37.22	35.51	35.00	37.45	40.07
		209%	-71%	-3%	73%	-5%	-1%	7%	7%
<b>Total Expenditure</b>	<b>166.32</b>	<b>252.42</b>	<b>239.78</b>	<b>250.77</b>	<b>278.61</b>	<b>297.14</b>	<b>319.13</b>	<b>345.32</b>	<b>373.96</b>
		52%	-5%	5%	11%	7%	7%	8%	8%
<b>Accounting Operating Surplus / (Deficit)</b>	<b>18.08</b>	<b>4.63</b>	<b>1.52</b>	<b>-3.97</b>	<b>-7.87</b>	<b>3.56</b>	<b>19.89</b>	<b>30.33</b>	<b>43.03</b>
		-74%	-67%	-362%	-98%	0%	0%	0%	42%
Change in debtors	-7.54	-14.95	3.91	-4.60	7.85	3.52	3.47	3.68	3.90
		98%	-126%	-218%	-271%	-55%	-1%	6%	6%
Change in creditors	7.71	-19.01	9.54	11.13	-4.38	4.38	3.43	3.63	3.85
		-347%	-150%	17%	-139%	-200%	-22%	6%	6%
Change in stock	-0.02	-0.14	0.08	0.03	0.01	0.01	0.01	0.01	0.01
		530%	-156%	-64%	-82%	0%	60%	6%	6%
<b>(Increase)/Decrease in Working Capital</b>	<b>0.15</b>	<b>-34.10</b>	<b>13.53</b>	<b>6.56</b>	<b>3.48</b>	<b>7.90</b>	<b>6.91</b>	<b>7.32</b>	<b>7.76</b>
		-23285%	-140%	-52%	-47%	127%	-13%	6%	6%

Prepared by INCA Portfolio Managers

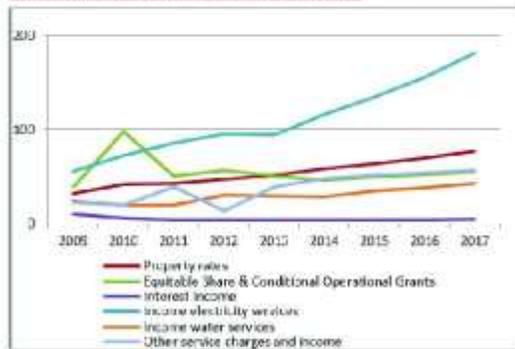
Independent Financial Assessment

Hessequa Municipality

Non-cash and adjustments	2.07	13.82	12.38	24.92	-10.89	26.65	29.54	36.48	40.54
		568%	-10%	101%	-144%	-345%	11%	23%	11%
<b>Total adjustments</b>	<b>2.21</b>	<b>-20.28</b>	<b>25.91</b>	<b>31.47</b>	<b>-7.42</b>	<b>34.56</b>	<b>36.45</b>	<b>43.81</b>	<b>48.30</b>
		-1016%	-228%	21%	-124%	-566%	5%	20%	10%
<b>Cash operating surplus / (deficit)</b>	<b>20.30</b>	<b>-15.66</b>	<b>27.43</b>	<b>27.50</b>	<b>-15.28</b>	<b>38.12</b>	<b>56.34</b>	<b>74.14</b>	<b>91.32</b>
		-177%	-275%	0%	-156%	-349%	48%	32%	23%
Interest received	10.36	5.90	3.97	3.61	4.02	4.14	4.26	4.39	4.52
		0%	-33%	0%	0%	3%	3%	3%	3%
Interest paid	-3.21	-4.26	-5.60	-7.63	-8.28	-8.99	-9.52	-10.19	-10.60
		33%	31%	36%	0%	0%	6%	7%	4%
<b>Net interest</b>	<b>7.14</b>	<b>1.64</b>	<b>-1.63</b>	<b>-4.02</b>	<b>-4.26</b>	<b>-4.85</b>	<b>-5.26</b>	<b>-5.81</b>	<b>-6.08</b>
		-77%	-200%	146%	0%	14%	8%	10%	5%
<b>Cash retained after interest</b>	<b>27.44</b>	<b>-14.02</b>	<b>25.80</b>	<b>23.49</b>	<b>-19.55</b>	<b>33.27</b>	<b>51.08</b>	<b>68.33</b>	<b>85.25</b>
		-151%	-284%	-9%	-183%	-270%	54%	34%	25%
Debt repayment	-3.55	-4.46	-5.34	-8.23	9.40	-11.39	-11.03	-11.36	-13.45
		26%	0%	54%	0%	0%	-3%	3%	18%
<b>Cash retained before capital movements</b>	<b>23.90</b>	<b>-18.48</b>	<b>20.45</b>	<b>15.25</b>	<b>-28.94</b>	<b>21.88</b>	<b>40.05</b>	<b>56.96</b>	<b>71.79</b>
		-177%	-211%	-25%	-290%	-176%	83%	42%	26%
Capital grants	32.22	31.09	8.67	15.61	14.37	22.83	31.87	31.87	31.87
		-4%	-72%	80%	-8%	59%	40%	0%	0%
Sale of fixed assets	0.58	0.63	3.22	0.70	0.00	0.00	0.00	0.00	0.00
		0%	0%	0%	0%	0.00%	0%	0%	0%
Capital expenditure	-51.65	-61.56	-43.14	-65.63	-48.92	-60.07	-64.64	-64.64	-64.64
		19%	-30%	52%	-25%	23%	8%	0%	0%
<b>Net capital movement</b>	<b>-18.05</b>	<b>-29.85</b>	<b>-31.25</b>	<b>-49.31</b>	<b>-34.55</b>	<b>-37.25</b>	<b>-32.78</b>	<b>-32.78</b>	<b>-32.78</b>
		58%	5%	58%	-30%	8%	-12%	0%	0%
<b>Balance before financing</b>	<b>5.04</b>	<b>-48.32</b>	<b>-10.80</b>	<b>-34.06</b>	<b>-63.49</b>	<b>-15.37</b>	<b>7.28</b>	<b>24.19</b>	<b>39.02</b>
		-1058%	-78%	215%	86%	-76%	-147%	232%	61%
Financing	9.48	14.81	22.02	24.60	16.25	16.15	17.25	15.00	15.00
		0%	0%	0%	0%	-1%	0%	0%	0%
<b>Net change in cash and investments</b>	<b>14.52</b>	<b>-33.52</b>	<b>11.23</b>	<b>-9.46</b>	<b>-47.24</b>	<b>0.78</b>	<b>24.53</b>	<b>39.19</b>	<b>54.02</b>
		-331%	-133%	-184%	399%	-102%	0%	0%	38%
<b>Cash &amp; Investment Balances</b>	<b>94.41</b>	<b>60.90</b>	<b>72.12</b>	<b>62.66</b>	<b>15.42</b>	<b>16.20</b>	<b>40.73</b>	<b>79.92</b>	<b>133.94</b>
		-35%	18%	-13%	-75%	5%	151%	96%	68%

Operating Income Trend Analysis

GRAPH 44: GROWTH PER INCOME SOURCE



Projections of the main revenue sources over the MTREF cycle and as extrapolated until 2016/17 indicates that Property Rates and Electricity Service Charges will remain the two major income drivers for Hessequa. However, it is anticipated that Electricity Charges will increase at a steeper scale than Property Rates. As highlighted in the historical analysis, arrears on billed Property Rates, Electricity and Water Services have been escalating, although Hessequa has effectively managed Operating Revenue through efficient collection practices. These practices should be maintained. The consumer's long term ability to pay for services needs to be considered as increases in revenue sources are still seen to be higher than inflation. The impact on collection levels should be monitored as Hessequa has catered for a 97.5% payment level in its budget projections.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property Rates	17%	16%	18%	19%	19%	19%	19%	19%	19%
Equitable Share & Conditional Operational Grants	21%	38%	21%	23%	19%	15%	15%	14%	13%
Service Charges – Electricity	30%	28%	35%	39%	35%	39%	40%	42%	43%
Service Charges – Water	13%	8%	8%	12%	11%	9%	10%	10%	10%

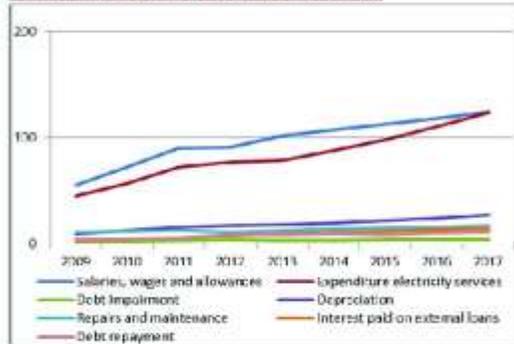
Prepared by INCA Portfolio Managers

In 2013/14 the new general valuation roll will be implemented and projections are that there will not be a steep increase in property rates during this year, although the past trend needs to be borne in mind should there be a higher increase than the 12% projection. With implementation of the last valuation roll in 2009/10, the collection levels dropped from 97% to 93% and although payment levels have recovered this historical trend needs to be kept in mind and be taken into consideration when reviewing and monitoring the expenditure budget. Specifically as in 2009/10 Hessequa posted a cash operating deficit as a result of the impact of Property Rate increases on collection levels.

It remains important for Hessequa to grow its revenue base and as there is limited capacity to derive further significant growth from the existing consumer base, it is imperative that Economic Development opportunities be investigated and considered.

### Operating Expenditure Trend Analysis

**GRAPH 45: GROWTH PER EXPENDITURE ITEM**



Hessequa has historically proven capable of effectively managing operating expenditure. This strength will be of immeasurable worth into the future.

With reference to Staff Costs, this cost remains Hessequa's largest expense, long term obligation and resource. In **Table 16** below it is indicated that as a percentage Staff Costs will annually gradually decrease from 37% in 2012/13 to 35% by 2014/15. However, year-on-year increases are projected at 5% per annum from 2013/14 onwards. This assumption may be unrealistic considering that Hessequa doesn't have an influence on decisions taken by the National Bargaining Council. It is proposed that the future scenario be tested with a 7-8% per annum salary increase.

As the largest expense and should there be changes in assumptions there will be a considerable and direct effect on the operating performance of Hessequa. This does however remain an area for optimal management and the assumptions need to be tested to determine the long term costs involved vs. the benefits derived from this resource. This cost will also be affected by any new placements.

Debt impairment is maintained at a level of 1% throughout the 5-year projection, which is in line with the historic trend. In 2009/10 this provision was insufficient as debtor payments decreased and this risk should be catered for in future. This level may therefore be inadequate and should be carefully monitored.

Repairs and Maintenance are projected to increase from 4% to 5% of operating expenditure per annum, the marginal improvement is positive although the level should be tested against the level of repairs required.

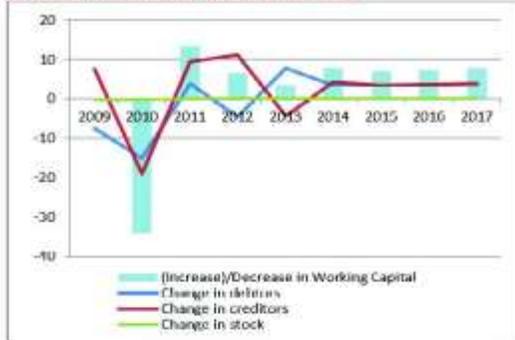
Depreciation is projected to remain at similar levels. Going forward it will become important that Depreciation charges not be treated as a non-cash expense, but rather as a method to increase the Capital Replacement Reserve by transferring the allocation to this reserve for future capital expenditure out of own resources.

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Salaries, wages and allowances	33%	29%	38%	36%	37%	36%	35%	34%	33%
Expense - Electricity services	27%	22%	30%	31%	28%	30%	31%	32%	33%
Expense - Water services	10%	7%	7%	9%	7%	7%	7%	7%	6%
Debt impairment	1%	1%	1%	1%	1%	1%	1%	1%	1%
Repairs & maintenance	7%	5%	5%	4%	4%	5%	5%	5%	4%
Depreciation	6%	5%	7%	7%	6%	7%	7%	7%	7%
External Interest Paid	2%	2%	2%	3%	3%	4%	4%	4%	4%

Overall income and expenditure projections are reasonable with no alarming trends in projected collection or spending patterns.

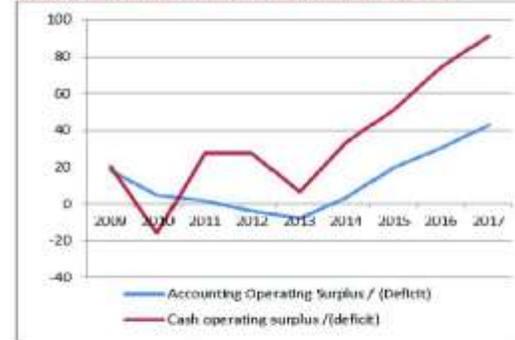
**Cash Flow Trend Analysis**

**GRAPH 46: CHANGE IN WORKING CAPITAL**



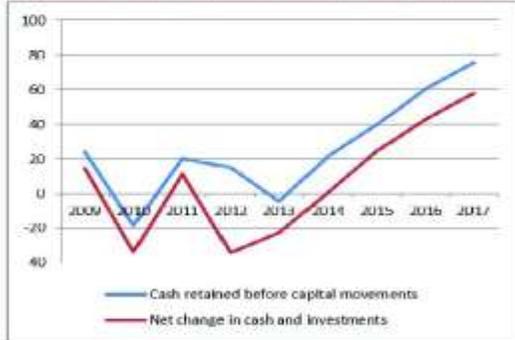
It is projected that changes in working capital will remain positive, based on the assumptions that creditors and provisions will increase year-on-year and net debtors will reduce. The assumption that creditors and provisions will continue increasing, should be of concern as this will require a future cash outflow from Hessequa as a liability is created. With regards to Net Debtors the assumptions need to be checked as Hessequa is providing debt impairment for a collection level of 97.5%. Should debtors perform accordingly the change should at a minimum be flat and not positive unless bad debts are to be impaired.

**GRAPH 47: CASH VS. OPERATING SURPLUS/ (DEFICIT)**



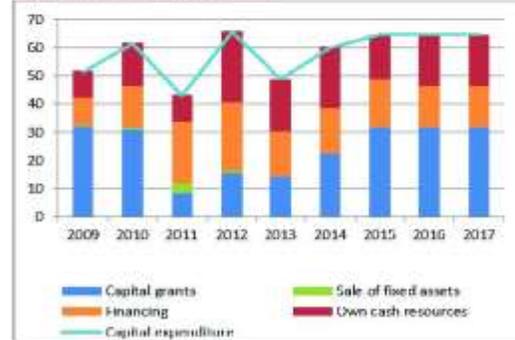
On an accounting basis, Hessequa historically posted operational surpluses although to a declining degree, with a slight operational deficit posted in 2011/12. This trend is projected into 2012/13 with a operational deficit of R 8 million. This reflects negatively on Hessequa's capacity to effectively manage income against expenses. A recovery is projected from 2012/13 onwards, but assumptions need to be checked for reasonability. On a cashflow basis Hessequa has projected a sharp decrease in cash operating surpluses for 2012/13 which may be conservative when compared to 2011/12. Future projections are in contrast positive and the degree of projected improvement may be unrealistic.

**GRAPH 48: MOVEMENTS IN CASH BEFORE AND AFTER CAPEX**



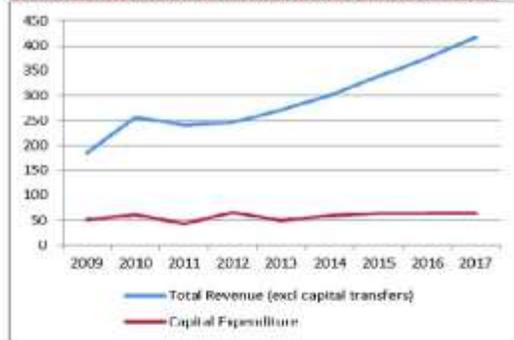
Hessequa has fluctuated between investing operational cash generated into capital expenditure and into reserves. It is projected that from Hessequa anticipates continuing using operational cash to part fund capital expenditure. Short term indications are that Hessequa will further reduce cash and investments in 2012/13 before starting a recovery of cash levels. This approach should be revisited as liquidity ratios are already under strain and should be restored from operational cash.

**GRAPH 49: FUNDING OF CAPEX**



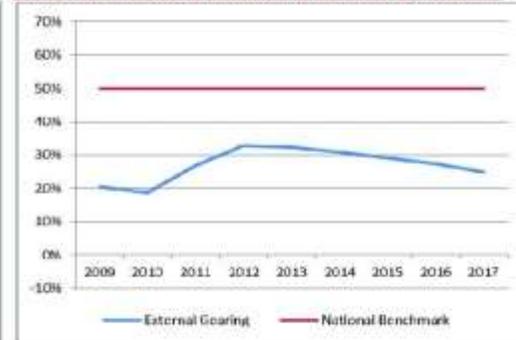
Hessequa projects an increase in capital transfers allocated, with a healthier blend of funding the balance with external loans and cash resources. Capital investment is projected to reduce to around R 50 million in 2012/13 with an annual increase to historic levels of R 65 million.

**GRAPH 50: OPERATING INCOME VS. CAPITAL EXPENDITURE**



Post larger capital investments in 2009/10 and 2011/12; capital spending is projected at levels of between R 50 million and R 65 million per annum. Should capital funding sources be reduced due to the short term recovery of liquidity, it will be important that capital funding resources be invested into infrastructure assets based on an in-depth understanding of the maintenance, replacement and investment requirements of Hessequa's Infrastructure Assets and capacity needs.

**GRAPH 51: EXTERNAL GEARING VS. INDUSTRY BENCHMARK**



Historically Hessequa's has maintained a healthy utilization of external gearing as a source of capital funding. Levels have increased as a result of new loan from Nedbank. External gearing as a percentage of Operating Revenue has increased to 33% in 2011/12, which is an acceptable level against the industry benchmark of 50%. It is projected that this level will decrease to 25% in the medium term.

**GRAPH 52: CAPITAL REDEMPTION PROFILE ON EXTERNAL BORROWINGS**



With reference to **Table 17**, over the past 4 years Hessequa has managed to service debt at levels of between R 7 million and R 16 million per annum. Based on projections of anticipated borrowing, debt servicing levels will increase to R 24 million per annum over the next 5 years. As Hessequa needs to manage its growing expenses against the level of growth in its revenue base, these levels seem reasonable but should not materially increase. It is advised that Hessequa consider utilizing and managing external gearing at a maximum level of 35%, whilst investing operational cash generated into improving liquidity and cash reserve levels. As depicted in **Table 17** below gearing is monitored against not only the level of debt but also against the impact thereof on the operating budget and net cash flow position. Based on the assumptions made in the MTREF it is clear that Hessequa will remain well within healthy financial limits and can utilise gearing

within sound parameters. Adjustments would however be required should the assumptions made in the MTREF not materialize, which will require continued monitoring of the actual financial performance of Hessequa.

		2009	2010	2011	2012	2013	2014	2015	2016	2017
External Gearing	Min	50%	20%	19%	27%	33%	32%	31%	29%	27%
Net Cash Flow to External Interest	Max	1.1	9.54	-2.29	5.61	4.08	-1.36	4.70	6.37	7.70
External Interest Paid	Max	7.50%	2%	2%	2%	3%	3%	3%	3%	3%
Total Loan Repayments	Mill	6.76	8.72	10.94	15.87	17.68	20.38	20.55	21.56	24.05

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital Reserve [1 month]	13.86	21.04	19.98	20.90	22.96	24.49	26.31	28.47	30.84
Unspent Conditional Funding	27.20	11.31	6.93	2.84	-	-	-	-	-
Cash Backed Reserves	40.98	46.28	44.48	31.43	12.88	3.14	6.61	13.93	29.37
Short term provisions	4.30	9.14	11.24	13.26	9.99	11.37	13.00	14.87	17.00
<b>Total Minimum Cash Required</b>	<b>86.34</b>	<b>87.76</b>	<b>82.63</b>	<b>68.43</b>	<b>45.83</b>	<b>39.00</b>	<b>45.92</b>	<b>57.27</b>	<b>77.20</b>
Surplus/(Shortfall)	8.07	-26.86	-10.50	-5.76	-30.41	-22.80	-5.19	22.65	56.73

## Key findings from MTREF assessment

*Factors to be stress tested in the following scenario on page 31*

- Revenue projections with annual increases of between 10% to 13% seem optimistic when compared with the limited increases experienced in the past 4 years, the materialization hereof needs to be monitored. Unless the increased revenue is generated from new developments, increases at these levels may also impact on the consumers' ability to pay for services as the average increase in the per capita income of Hessequa's population has been between 8% and 11% per annum.
- On the other hand expenditure is projected to increase by between 7% to 8% in the medium term, although effective expenditure will benefit the operational performance of Hessequa these projections may be considered unreasonable.
- Hessequa has provided for debt impairment based on payment levels of 97.5%. As noted in the historical analysis debt impairment for debtors may have been too low and to increase it to realistic levels will have a direct impact on the operating budget. In addition should payment levels fall below 97.5% it will require an adjustment to expenditure to reduce the risk of posting operational deficits.
- Salaries and Wage increases are projected at levels that are unrealistically low at 5%, and for reasonable comparison will be projected at 7% in the scenario to follow.
- Repairs and Maintenance remains at levels of 4% to 5% of operating expenditure. This may be adequate considering that the state of assets are considered fair to very good. This assumption needs to be reviewed annually.
- Depreciation charges need to be treated as a method to increase capital replacement reserve. It is not evident from the budgeting process that Hessequa has catered for the transfer of allocation to a ring-fenced reserve.
- Working capital is projected to increase. It is however advisable that creditors be maintained whilst the necessary increases be made in provisions for short term provisions. Realistic provisions are also to be made for the anticipated growth in debtors due to non-collection.
- Capital expenditure is reduced in 2012/13 to below R 50 million, however it is projected that R 18 million thereof will be funded from own resources. It is also projected that Hessequa will post a cash operational deficit and that the net effect of operational and capital activities will result in a cash outflow of R 47 million. Albeit that operational projections may be overly conservative, it is recommended that cash outflows be strictly monitored and that cash resources not be depleted thereby further burdening the liquidity levels.

Capital expenditure is projected to increase to R 65 million per annum in the medium term and to be funded from a blend of own funds, capital transfers and external borrowing. Gearing will decrease over the medium term from 33% to 25%, however debt servicing will increase from R 15 million to R 24 million per annum. New funding is projected over a term of 10 years and it may be beneficial to increase the term to 15 years should gearing be increased to above 25%.

This is still within acceptable levels should income materialize and expenditure be effectively managed. However it is recommended that Hessequa in the medium term rather invest cash surpluses into liquidity and reserves as based on the assumptions made in the MTREF liquidity levels are projected to deteriorate further in the short term before improving over the medium term [Table 18].

- The above findings and recommendations will be used to test the projections made in **Table 14**, by way of amendments made in **Table 19** on page 32.

### Scenario including draft 5-year capital program

The following data has been used with an indication of annual increases/ (decreases) and is plotted graphically. The data is to be used for cross referencing (Rm).

Table 19: Forecasted Operational Performance	Historical Financial Data				5 Year Cash Flow Forecast				
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property rates	31.81	41.37	42.63	47.06	51.86	58.11	63.94	70.34	77.37
		30%	3%	10%	10%	12%	10%	10%	10%
Equitable Share & Conditional Operational Grants	39.28	97.69	50.17	56.80	50.80	46.19	49.62	52.10	54.71
		149%	-49%	13%	-11%	-9%	7%	5%	5%
Interest Income	10.36	5.90	3.97	3.61	4.02	4.14	4.26	4.39	4.52
		0%	-33%	-9%	11%	3%	3%	3%	3%
Income electricity services	56.10	72.28	85.64	95.32	94.71	116.13	134.76	156.32	181.34
		29%	18%	11%	-1%	23%	16%	16%	16%
Income water services	24.54	20.27	19.75	30.57	29.93	28.27	34.91	38.40	42.24
		-17%	-3%	55%	-2%	-6%	23%	10%	10%
Other service charges and income	22.31	19.53	39.14	13.44	39.44	47.86	51.53	54.10	56.81
		-12%	100%	-66%	193%	21%	8%	5%	5%
<b>Total Revenue (excl capital transfers)</b>	<b>184.41</b>	<b>257.05</b>	<b>241.30</b>	<b>246.80</b>	<b>270.75</b>	<b>300.71</b>	<b>339.02</b>	<b>375.65</b>	<b>416.98</b>
		39%	-6%	2%	10%	11%	13%	11%	11%
Salaries, wages and allowances	54.91	72.13	90.18	91.36	101.81	108.93	116.56	124.72	133.45
		31%	25%	1%	11%	7%	7%	7%	7%
Expenditure electricity services	45.38	56.61	72.62	77.07	78.45	87.67	98.34	110.15	123.36
		25%	28%	6%	2%	12%	12%	12%	12%
Expenditure water services	16.70	17.10	17.71	21.70	18.38	19.71	21.14	22.62	24.21
		2%	4%	23%	-15%	7%	7%	7%	7%
Debt Impairment	1.27	2.11	3.39	3.72	3.09	3.28	3.47	3.68	3.90
		66%	61%	10%	-17%	6%	6%	6%	6%
Depreciation	9.15	12.77	15.60	16.79	17.74	19.70	21.96	24.37	27.05
		40%	22%	8%	6%	11%	11%	11%	11%
Repairs and maintenance	11.13	11.55	12.48	11.03	12.51	13.60	14.62	15.64	16.74
		4%	8%	-12%	13%	9%	7%	7%	7%
Interest paid on external loans	3.21	4.26	5.60	7.63	8.28	8.99	10.29	12.14	13.80
		33%	31%	36%	0%	9%	14%	18%	14%
General expenses	24.57	75.89	22.20	21.48	40.39	43.22	46.25	49.48	52.95
		209%	-71%	-3%	88%	7%	7%	7%	7%
<b>Total Expenditure</b>	<b>166.32</b>	<b>252.42</b>	<b>239.78</b>	<b>250.77</b>	<b>280.65</b>	<b>305.10</b>	<b>332.63</b>	<b>362.80</b>	<b>395.46</b>
		52%	-5%	5%	12%	9%	9%	9%	9%
<b>Accounting Operating Surplus / (Deficit)</b>	<b>18.08</b>	<b>4.63</b>	<b>1.52</b>	<b>-3.97</b>	<b>-9.91</b>	<b>-4.39</b>	<b>6.39</b>	<b>12.85</b>	<b>21.52</b>
		-74%	-67%	-362%	150%	0%	0%	0%	67%
Change in debtors	-7.54	-14.95	3.91	-4.60	-3.39	-4.24	-5.08	-5.90	-6.83
		98%	-126%	-218%	-26%	25%	20%	16%	16%
Change in creditors	7.71	-19.01	9.54	11.13	0.00	0.00	0.00	0.00	0.00
		-347%	-150%	17%	-100%	0%	0%	0%	0%
Change in stock	-0.02	-0.14	0.08	0.03	0.00	0.00	0.00	0.00	0.00
		530%	-156%	-64%	-100%	0%	0%	0%	0%
<b>(Increase)/Decrease in Working Capital</b>	<b>0.15</b>	<b>-34.10</b>	<b>13.53</b>	<b>6.56</b>	<b>-3.39</b>	<b>-4.24</b>	<b>-5.08</b>	<b>-5.90</b>	<b>-6.83</b>
		-23285%	-140%	-52%	-152%	25%	20%	16%	16%
Non-cash and adjustments	2.07	13.82	12.38	24.92	25.09	27.82	31.46	35.80	40.23
		568%	-10%	101%	1%	11%	13%	14%	12%
<b>Total adjustments</b>	<b>2.21</b>	<b>-20.28</b>	<b>25.91</b>	<b>31.47</b>	<b>21.70</b>	<b>23.59</b>	<b>26.37</b>	<b>29.91</b>	<b>33.40</b>
		-1016%	-228%	21%	-31%	9%	12%	13%	12%
<b>Cash operating surplus / (deficit)</b>	<b>20.30</b>	<b>-15.66</b>	<b>27.43</b>	<b>27.50</b>	<b>11.80</b>	<b>19.19</b>	<b>32.77</b>	<b>42.76</b>	<b>54.93</b>
		-177%	-275%	0%	-57%	63%	71%	30%	28%
Interest received	10.36	5.90	3.97	3.61	3.45	2.31	1.84	2.07	2.75
		0%	-33%	0%	0%	-33%	-20%	12%	33%
Interest paid	-3.21	-4.26	-5.60	-7.63	-8.28	-8.99	-10.29	-12.14	-13.80
		33%	31%	36%	0%	0%	14%	18%	14%

Prepared by INCA Portfolio Managers

Net interest	7.14	1.64	-1.63	-4.02	-4.84	-6.68	-8.44	-10.07	-11.05
		-77%	-200%	146%	0%	38%	26%	19%	10%
Cash retained after interest	27.44	-14.02	25.80	23.49	6.96	12.51	24.32	32.69	43.87
		-151%	-284%	-9%	-70%	80%	94%	34%	34%
Debt repayment	-3.55	-4.46	-5.34	-8.23	-9.40	-10.89	-10.18	-10.20	-12.03
		26%	0%	54%	0%	0%	-6%	0%	18%
Cash retained before capital movements	23.90	-18.48	20.45	15.25	-2.43	1.63	14.14	22.48	31.84
		-177%	-211%	-25%	-116%	-167%	770%	59%	42%
Capital grants	32.22	31.09	8.67	15.61	14.37	25.73	20.83	20.16	20.07
		-4%	-72%	80%	-8%	79%	-19%	-3%	0%
Sale of fixed assets	0.58	0.63	3.22	0.70	0.00	0.00	0.00	0.00	0.00
		0%	0%	0%	0%	0.00%	0%	0%	0%
Capital expenditure	-51.65	-61.56	-43.14	-65.63	-48.92	-58.77	-58.44	-56.11	-56.61
		19%	-30%	52%	-25%	20%	-1%	-4%	1%
Net capital movement	-18.85	-29.85	-31.25	-49.31	-34.55	-33.05	-37.61	-35.95	-36.54
		58%	5%	58%	-30%	-4%	14%	-4%	0%
Balance before financing	5.04	-48.32	-10.80	-34.06	-36.98	-31.42	-23.47	-13.46	-4.70
		-1058%	-78%	215%	9%	-15%	-25%	-43%	-65%
Financing	9.48	14.81	22.02	24.60	16.25	23.01	27.57	25.82	23.61
		0%	0%	0%	0%	42%	0%	0%	0%
Net change in cash and investments	14.52	-33.52	11.23	-9.46	-20.73	-8.41	4.10	12.36	18.90
		-331%	-133%	-184%	119%	-59%	0%	0%	53%
Cash & Investment Balances	94.41	60.90	72.12	62.66	41.93	33.52	37.62	49.98	68.88
		-35%	18%	-13%	-33%	-20%	12%	33%	38%

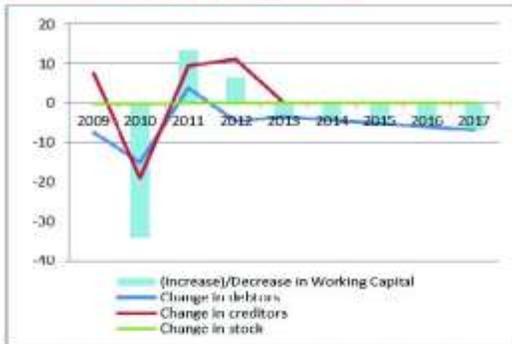
The following changes in assumptions were reflected in the above cash flow forecast scenario:

- Income projections were left unchanged, although projections need to be reviewed annually.
- Total Expenditure was increased by 9% per annum which is below the annual increase projected for income. Expenditure projections were amended to include a 7% increase on Salaries, Wages and Allowances from 2013/14 onwards.
- Working capital was calculated based on the maintenance of a 97% payment level taking into consideration the debt impairment originally projected. It was assumed that that creditors and stock would not change. Should current liabilities increase as a result of statutory short term provisions increasing, an equal increase will be required in expenditure and projected cash levels [Graph 53 page 34].
- Interest earned was calculated at 5.5% on the prior years' closing balance.
- The draft 5-year capital program was incorporated. Financing requirements were plotted over a 15 year amortising term based on an interest rate of 10.50%. On this basis Hessequa will perform within the recommended guidelines as mentioned earlier in the report as capital expenditure is reduced to R 55-60 million per annum funded largely by increased external funding of R 116 million over 5 years as well as capital grants of R 101 million and R 61 million own cash resources. In essence gearing has been increased by R 30 million thereby reducing funding from own resources by this amount.
- If the borrowing term is increased to 15 years, the capital and interest redemption costs on the higher level gearing of 35%, will still remain at earlier projected levels of R 25 million per annum by 2016/17. [Table 20]
- Considering the more conservative projections, cash and liquidity is projected to decrease in 2012/13 albeit not to the low level as projected previously. Based on the more prudent projections it is evident that recovering liquidity in the short to medium term will require continued financial management of revenue and expenditure [Table 21].

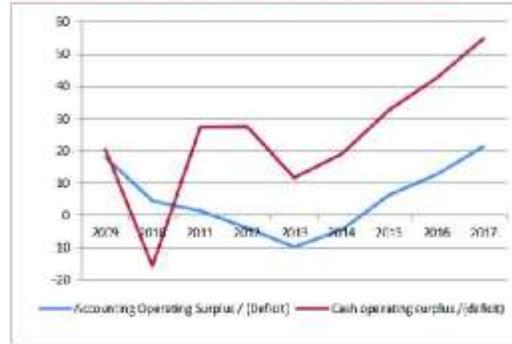
As a result of the above amendments the cash flow graphs have been affected as projected below:

**Cash Flow Trend Analysis (Scenario)**

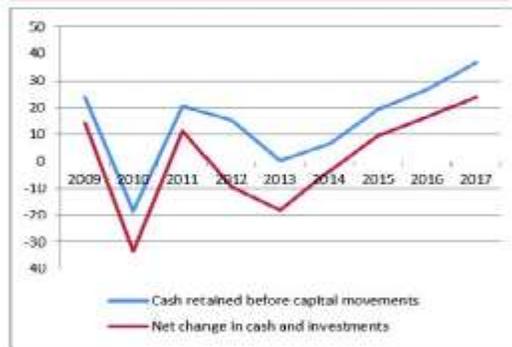
**GRAPH 53: CHANGE IN WORKING CAPITAL**



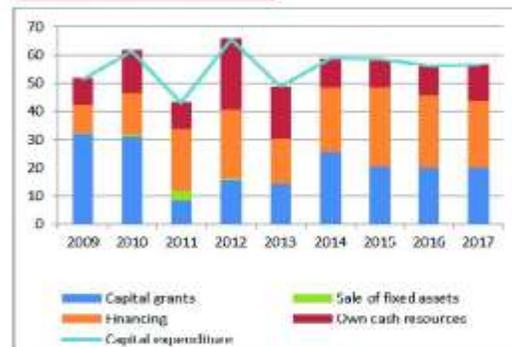
**GRAPH 54: CASH VS. OPERATING SURPLUS/ (DEFICIT)**



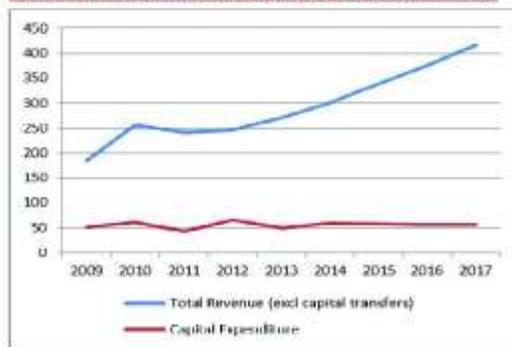
**GRAPH 55: MOVEMENTS IN CASH BEFORE AND AFTER CAPEX**



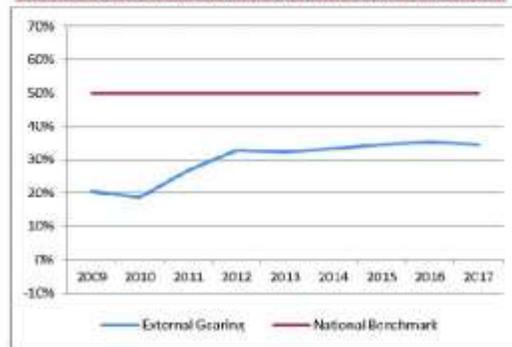
**GRAPH 56: FUNDING OF CAPEX**



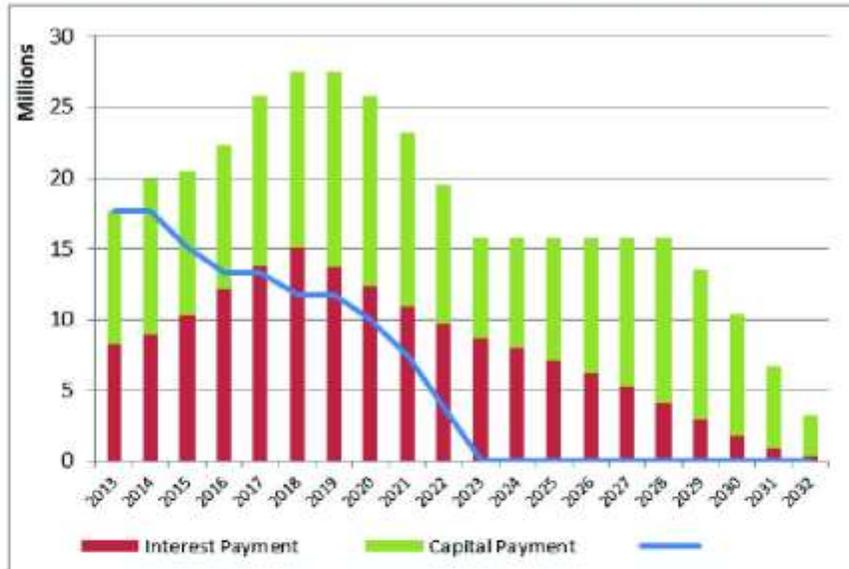
**GRAPH 57: OPERATING INCOME VS. CAPITAL EXPENDITURE**



**GRAPH 58: EXTERNAL GEARING VS. INDUSTRY BENCHMARK**



**GRAPH 59: CAPITAL REDEMPTION PROFILE ON EXTERNAL BORROWINGS**



**Table 20: Gearing Ratios**

		2009	2010	2011	2012	2013	2014	2015	2016	2017
External Gearing	Minimum	50%	20%	19%	27%	33%	32%	33%	35%	35%
Net Cash Flow to External Interest	Maximum	1.1	9.54	-2.29	5.61	4.08	1.84	2.39	3.36	4.18
External Interest Paid	Maximum	7.50%	2%	2%	2%	3%	3%	3%	3%	3%
Total Loan Repayments	Million	6.76	8.72	10.94	15.87	17.68	19.88	20.47	22.34	25.84

**Table 21: Cash Requirements**

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital Reserve [1 month]	13.86	21.04	19.98	20.90	23.13	25.15	27.43	29.93	32.63
Unspent Conditional Funding	27.20	11.31	6.93	2.84	-	-	-	-	-
Cash Backed Reserves	40.98	46.28	44.48	31.43	12.88	3.14	6.61	13.93	29.37
Short term provisions	4.30	9.14	11.24	13.26	9.99	11.37	13.00	14.87	17.00
<b>Total Minimum Cash Required</b>	<b>86.34</b>	<b>87.76</b>	<b>82.63</b>	<b>68.43</b>	<b>46.00</b>	<b>39.66</b>	<b>47.04</b>	<b>58.73</b>	<b>78.99</b>
Surplus/(Shortfall)	8.07	-26.86	-10.50	-5.76	-4.07	-6.14	-9.42	-8.75	-10.11

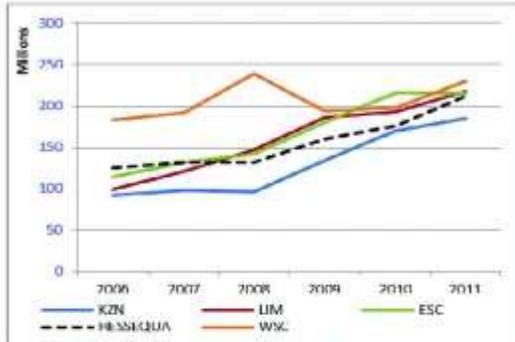
*Comments and findings:*

- The assumptions made are considered realistic and attainable based on Hessequa’s management capacity. An area that has however not been addressed in the projections, relates to the creation of cash reserves for the future maintenance of capital infrastructure from own resources.
- It is further evident that Hessequa is presently not in a position to allocate its full depreciation charge to the establishment of capital replacement reserve. However it is recommended that this objective be included in the medium term financial objectives of Hessequa, not only to guarantee the long term financial health of the Municipality but also the long term health of its infrastructure assets.

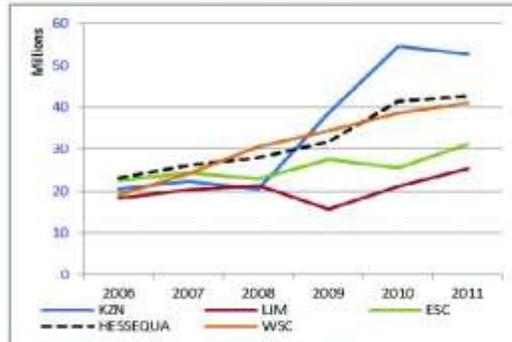
## 7. PEER COMPARISON

The historical financial performance of Hessequa has been reported on and the budget assumptions made in the MTREF have been scrutinized. To form an objective opinion on the holistic financial position of Hessequa, a comparison of its financial performance against that of its peers in the municipal market is made.

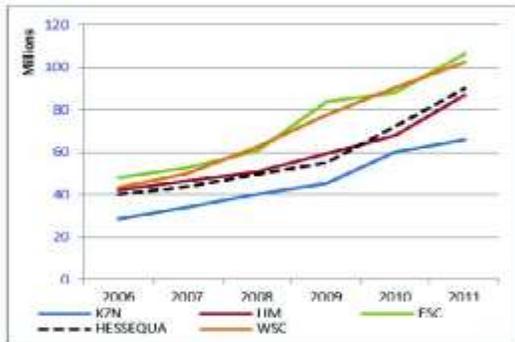
**GRAPH 60: TOTAL OPERATING INCOME (EXCL. CONDITIONAL GRANTS)**



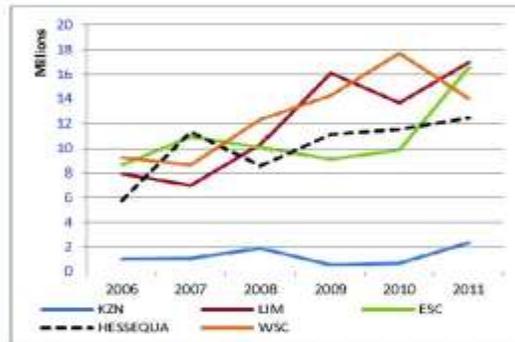
**GRAPH 61: GROWTH IN PROPERTY RATES BASE**



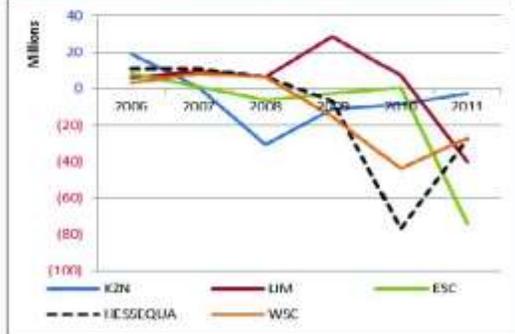
**GRAPH 62: INCREASE IN SALARIES, WAGES & ALLOWANCES**



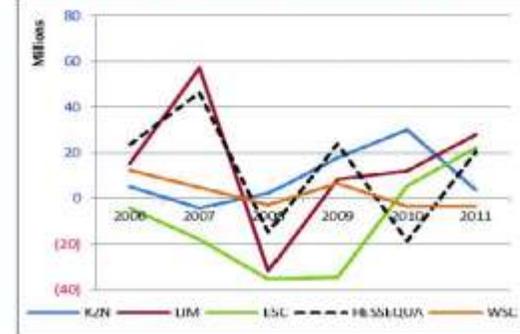
**GRAPH 63: CONTRIBUTION TO REPAIRS AND MAINTENANCE**



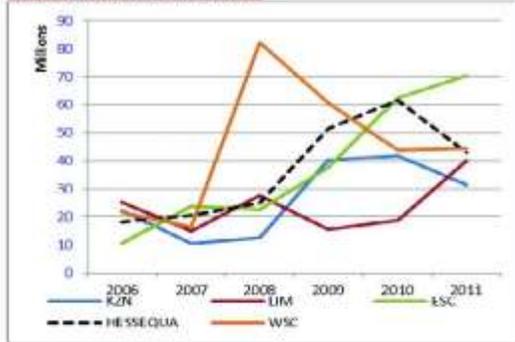
**GRAPH 64: OPERATIONAL SURPLUS/ (DEFICIT) (ACCOUNTING)**



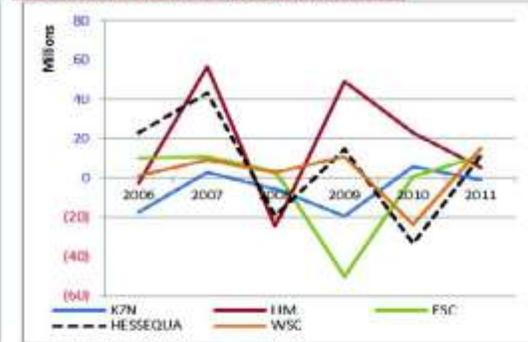
**GRAPH 65: CASH RETAINED BEFORE CAPITAL EXPENDITURE**



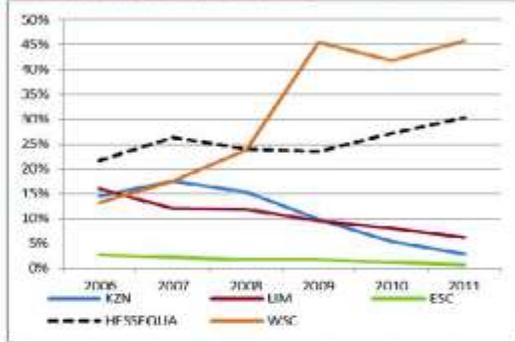
GRAPH 66: CAPITAL EXPENDITURE



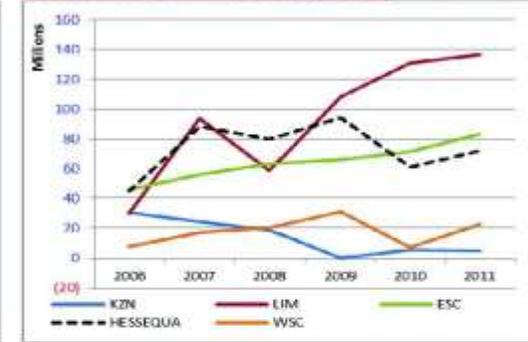
GRAPH 67: NET CHANGE IN CASH AND INVESTMENTS



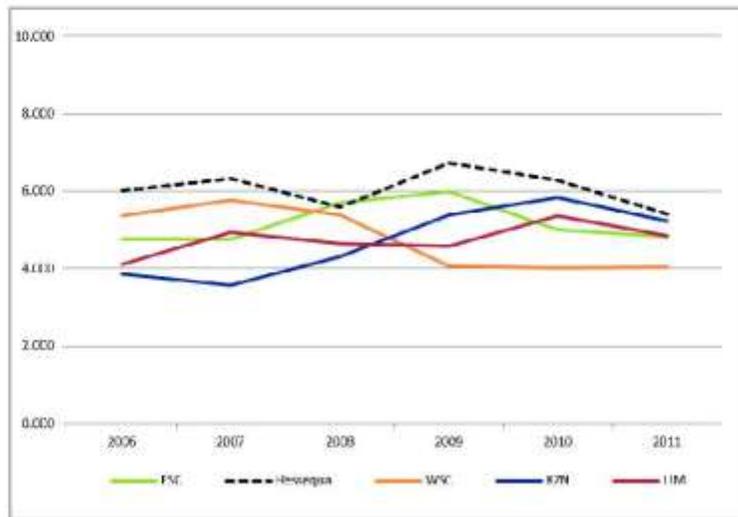
GRAPH 68: LEVEL OF EXTERNAL GEARING



GRAPH 69: TOTAL CASH AND CASH EQUIVALENTS



GRAPH 70: CREDIT SCORE RELATIVE TO SECTOR



- As an illustration the financial performance of four municipalities with a similar sized income base as Hessequa is plotted with regards to key performance areas from 2005/06 to 2010/11. The municipalities are based in the Western Cape, Limpopo, KwaZulu Natal and Free State respectively. The municipalities also represent entities with varied financial capacity.
- The growth in Hessequa's property rate base is the second highest although by income base Hessequa is placed fourth amongst these peers.
- Salaries and wages have increased at a similar scale as its peers and is on par with the Municipality in Limpopo that has an equal sized income base.
- Repairs and maintenance is plotted between R 12 million per annum and R 16 million per annum for the group of peers, although lower than its peers Hessequa's spending is comparable.
- It is evident that the operational performances of its peers have also been under pressure. Hessequa's level of cash generated from operations has been more irregular than the annual performance of its peers.
- Hessequa's capital spending has increased at a steadier pace than its peers. Over the six year term, Hessequa spent R 220 million on capex whilst the lowest spend was at R 160 million and the highest R 270 million.
- Similarly Hessequa's peers have used their own resources in an inconsistent fashion to part fund capital infrastructure. However Hessequa has more effectively utilized external gearing to supplement capital funding sources at an acceptable level.
- Although Hessequa's peers are increasing cash levels, Hessequa's cash and investments show an inclining trend albeit third highest of the group.
- Commendably overall Hessequa has maintained the highest credit score of the group of peers over the term of six years reflecting positively on management capacity.

## 8. SYNOPSIS OF FINDINGS & RECOMMENDATIONS

The overall credit score reflecting on financial, economic, socio-economic and management indicators is a good gauge of the overall performance of Hessequa Municipality over the past 7 years. From this it can be fairly stated that Hessequa's performance is still commendable, but that key performance areas have come under pressure as in particular the financial performance of Hessequa has gradually deteriorated on an annual basis over the past 4 years.

From the economic, demographic and financial analysis it can be interpreted that Hessequa has made a concerted effort to manage infrastructure and backlogs thereby providing its consumer with an acceptable level of municipal services. Hessequa has also implemented several good business practices such as its steadfast grip on collection levels and the alignment of accounting practices with GRAP. Going forward it is important to maintain these practices as well as to maintain assets and the level of services presently provided to residents. However to secure the financial livelihood of Hessequa it is important that the following areas are improved upon:

- **ESTABLISHMENT OF RESERVES** to adequately start providing for the longer-term obligations of Hessequa with regards to:
  - **EMPLOYEE BENEFIT OBLIGATIONS** The alignment of accounting practices has rightfully highlighted the longer term financial obligations of Hessequa, specifically with regards to making longer term provisions for employee benefits and creating the necessary cash backed reserves. This requires Hessequa to be mindful of cash flow from operating activities to ensure that reserves are held at adequate levels to meet the short term obligations. In addition to creating a sufficient cash buffer, there are limited factors within Hessequa's control to mitigate these risks. It is within Hessequa's control to review the terms of employment as well as the level of the staff component. The effective management of Human Resources will benefit Hessequa with regards to making sufficient cash backed provisions as well as managing its largest operational expense.
  - **CAPITAL REPLACEMENT RESERVE** Hessequa has in recent years not actively made an annual allocation from its operational budget towards the Capital Replacement Reserve earmarked for future renewal of infrastructure assets. As Hessequa has actively invested into its infrastructure assets in the past 7 years it is recommended that it be considered prudent to annually set aside a contribution to the future replacement and maintenance of these assets. In this regard depreciation charges should also be treated as an effective method to transfer cash to this reserve and that this pool of funds is conservatively used to fund Hessequa's own contribution to capital investment. This will require more effective expenditure management and cash budgeting for all expenditure.
- **CASH AND LIQUIDITY MANAGEMENT** Liquidity levels have been fairly managed although a steady decline is noted in the level of current assets to current liabilities, it is recommended that the ratio be stabilized and the negative trend be halted. With regards to current assets, Hessequa has not substantially or incrementally increased cash and investments, showing the lowest levels in years. In addition it would seem that insufficient provision is being made for consumer debtors older than 90 days therefore inflating liquidity. The level of provision needs to be reviewed to attain reasonability of assumptions used.

On the other hand current liabilities have increased in the past two years as creditors have steeply increased. Creditors' accounts are to be managed to effectively reflect cash outflows on operating budget.

It is recommended that as a medium-term objective, Hessequa maintains cash and investments at a level that exceeds the sum of the cash backed reserves, unspent conditional grants, ceded investments and a minimum of one month's operating expenditure, as well as that meets the liquidity ratio of 1:1 for liquid current assets over current liabilities. The official drafting and approval of a Liquidity Policy by Council will ensure that the liquidity level of Hessequa is strengthened.

- **CAPITAL EXPENDITURE & REPAIRS AND MAINTENANCE** Hessequa has continued stringent application of operating and capital transfers received from National and Provincial Government. Levels of capital spending have however decreased from 98% to 91% of its capital budget. Hessequa has however maintained its Asset Register and has a

solid comprehension of the state of all assets, which are presently reflected as in a fair to very good state. Based on the annual increase in per capita spend [by population size] it is fair to state that infrastructure assets can be maintained at these levels and that the projected capital spending of R 55 to 60 million is adequate. It is therefore important that Hessequa spend the available capital budget on a selective basis to ensure the health of the infrastructure assets whilst expanding on productive capital investments.

Based on the state of the assets it can be viewed that repairs and maintenance of 4% to 5% of operating expenditure is presently adequate, however the Asset Register needs to be maintained to ensure adequate longer term planning. Going forward it will also be important for Hessequa to determine what levels of service and quality of infrastructure Hessequa is going to be able to maintain, as this has a direct impact on the MTREF in relation to planning for repairs and maintenance.

- **CAPITAL FUNDING RESOURCES** Based on well-defined long term capital spending programs linked to the regular analysis of the Fixed Assets, the resources to Hessequa's avail can be apportioned. Hessequa increased external gearing to 33% by 2011/12 and based on the draft 5-year capital budget for 2013/14, Hessequa intends increasing gearing to 35%. It is recommended that gearing be maintained at levels this level of 35% and that the term of the loans be increased to at least 15 years. Gearing at these levels is subject to the materialization of income levels and the effective management of expenses, as the operational capacity of Hessequa will be placed under significant pressure should any of the assumptions made change.

Hessequa is to adjust its capital programs should capital transfers not transpire as projected, as Hessequa cannot afford to deplete own cash resources to fund capital infrastructure. A detailed Funding Strategy is to be drafted and approved as well as a specific program to service external debt that will provide comfort to Lenders and enable Hessequa to continue having access to borrowed funds at acceptable rates.

- **GROWTH IN REVENUE BASE** Hessequa is aptly using the operational and capital resources to its avail and with implementation of the above recommendations, Hessequa will secure its financial position by making the necessary provision for obligations whilst optimizing the resources to its avail. However to grow the income base from which Hessequa can gear itself for external funding and from which it can manage its growing obligations, it is imperative that Hessequa review the economic development potential of its Investment Properties as there is limited scope to increase tariffs without compensating on payment levels.
- **REVISION OF BENCHMARKS AND BUDGET ASSUMPTIONS** The recommendations made in this report will strengthen the financial position and credit rating of Hessequa, however should any of the assumptions made in this report change, the impact needs to be evaluated against the latest available information. It is further a good business practise to do an in-depth report on the actual performance against budget assumptions made, on a quarterly basis and to review financial benchmarks on an annual basis. This will improve the stringent management of the operational budget.
- **SUPPORT FROM COUNCIL AND ADMINISTRATION** The results of this assessment needs to be tabled to Council for its support and forthcoming should be the adoption of sound financial benchmarks, to enable Hessequa's Administration to reach the targets set out in the finding and recommendations.
- **COMMUNICATING THE FINANCIAL POSITION OF HESSEQUA** effectively to all key stakeholders is important. In this respect the outcome of this assessment should be used to build consensus internally amongst officials and/or Council, but should also be used to inform other key stakeholders. The latter will include but is not limited to:
  - **THE NATIONAL & PROVINCIAL GOVERNMENT** to communicate Hessequa's ability to provide services on a sustainable basis and to work towards an increase in the equitable share allocations.
  - **THE LOCAL BUSINESS COMMUNITY** to communicate the service delivery role of the Municipality and the financial situation with the longer term strategy.
  - **THE COMMUNITY** to communicate the utilisation of income for service delivery to reiterate the importance to pay accounts and to indicate actions to be taken to maintain payment levels.



## Operation Clean Audit – MGRO

During the 2012/13 Financial year Provincial Treasury rolled out a programme called MGRO, which aims at assistance to all local municipalities in the Western Cape to understand and develop clear corrective measures to reach a clean audit status. This remains a large task for any municipality, but it is in reach for Hessequa Municipality. The council and senior management of Hessequa Municipality welcomed this programme and continued to focus on each of the issues raised by the Auditor General Management Letter sent to Hessequa Municipality. The following table present the findings of the Auditor General and the response from Hessequa to rectify the issue.

ANALYSIS OF MANAGEMENT REPORT					
MUNICIPALITY: HESSEQUA					
CURRENT STATUS					RESPONSIBLE UNITS
NO	HEADING AUDIT FINDING	DETAILED AUDIT FINDING	SOURCE(S)	CLASSIFICATION	ACCOUNTING
1	<b>Material misstatements not corrected.</b>	Not applicable; There were no material misstatements that were not corrected.	2011/12 final management report, Section 2 part A paragraph 7.	Material misstatements	N/A
2	<b>Material misstatements corrected.</b>	The material misstatement corrected pertained to • Borrowing and long-term loans : The impact for the current year = R25 698 759, the impact for prior year = R31 312 770 • Service charges : The impact for the current year = R11 048 239, the impact for the prior year = R8 893 265 • Bank and cash : The impact for the current year = R8 377 686, the impact for the prior year = nil.	2011/12 final management report, Section 2 part A paragraph 7.	Material misstatements	Misstatements that were made in the 2011/2012 financial year were also made in previous financial years and was not queried by the auditors. All these misstatements have now been corrected and will not occur again.
3	<b>Restatement of corresponding figures</b>	As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 30 June 2012 in the financial statements of the Hessequa Municipality at, and for the year ended, 30 June 2011. The correction of errors regarding PPE and non-current assets held for amounted to R1 077 696 million and R63 500 respectively. The corrections of errors regarding trade receivables from non-exchange transactions amounted to R1 457 821. The correction of error regarding accumulated surplus as well as profit and loss amounted to R792 234 and R719140 respectively.	2011/12 final management report, Section 2 part B paragraph 8.	Material misstatements	This has been corrected
	<b>Material losses</b>	As disclosed in note 53 to the financial statements, electricity distribution losses of 10 155 004 kWh (12%) were incurred during the 2011/12 financial year as a result of resistance to the flow of electricity, illegal connections, electricity theft, tampering with meters, meters not read correctly, faulty meters and by-passing of meters. As disclosed in note 53 to the financial statements, water losses to the amount of R879 295 (547 976 kiloliters) (29%) were incurred during the 2011/12 financial year as a result of ageing infrastructure assets.	2011/12 final management report, Section 2 part B paragraph 9 and 10.	Service delivery	1. The high water losses is attributed to the following factors: - a) high volume of pipe breaks in older networks b) a lot of the municipal use is not metered 2. As a starting point all municipal usage will be metered and updated on the financial system

4	<b>Material under spending of the budget</b>	As disclosed in note 47 to the financial statements, the municipality has materially under spent the capital budget to the amount of R6, 45 million (9%). This was mainly due to the Albertinia reservoirs project starting later than initially anticipated, and electrification of Heidelberg houses projects which were to be financed by means of an external loan but was subsequently funded from the INEP grant. These projects will be finalised in the 2012/13 financial year.	2011/12 final management report, Section 2 part B paragraph 13.	Service delivery	1. At the end of January 2013 the following amounts were spent i.r.o. the capital budget: - 22.1% (R10.821m) of the total budget of R48.915m 2. The deviations from the SDBIP projections is 55% and an amount of R24.253m should have been spent. (Actual R10.821m)
5	<b>Non-compliance with laws and regulations</b>	The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	2011/12 final management report, Section 2 part D paragraph 30.	Non-compliance with laws and regulations, and material misstatements	Ignites Advisory Services in conjunction with the Provincial Administration has compiled a compliance module, and Hessequa municipality has been designated as a pilot site. This software will ensure that all compliance issues are met.
6	<b>Control deficiencies</b>	<p>The drivers of internal controls were reassessed as follows :</p> <ul style="list-style-type: none"> <li>• Leadership improved</li> <li>• Financial and performance management improved</li> <li>• Governance improved.</li> </ul> <p><b>The following are the issues raised by the AGSA which led to the assessment results regarding Leadership :</b></p> <ul style="list-style-type: none"> <li>• Oversight responsibility ; The accounting officer did not ensure that the adequate controls are in place with regards to the monitoring of predetermined objectives to ensure valid, accurate and complete predetermined objectives are reported.</li> <li>• Action plans to address internal control deficiencies ; Action plans to address internal control deficiencies identified on compliance matters in the prior year were not formally and adequately implemented and monitored to address non-compliance which resulted in recurring findings in the current period.</li> <li>• IT governance framework ; IT resources at the municipality are currently more operationally focused and therefore lack the capacity to develop formal IT-related policies and procedures. Informal IT management processes have been established, however these need to formally documented and approved. Municipal management did not develop adequate action plans and assign responsibility to implement all of the recommendations of the prior year, resulting in repeat findings with regard to the inadequacy of formally designed and implemented IT controls. This was evidenced by the lack of evidence maintained to confirm that IT services provided by third parties were being monitored on a regular basis.</li> </ul>	2011/12 final management report, Section 2 part E (Table with the smiley faces) paragraph 39 to 45.	Internal Control Deficiency	<p>1. The matter of monitoring PDO's will be addressed during the revision of the SDBIP during February 2013.</p> <p>2. Refer to item 5 above</p> <p>3. Hessequa is currently negotiating with SITA (state IT agency) to compile a formal document to address IT governance issues. (Our current plan is outdated) This plan should be finalised by 30th June 2013, and we have budgeted an amount of R100 000 for this.</p> <p>4. User Access Control - We need the help of Province/ Change Management - We request Province's help/ Facilities and Environment Controls - This has been budgeted for in the 2013/2014 financial year</p>

		<p><b>The following are the issues raised by the AGSA which led to the assessment results regarding Governance :</b></p> <ul style="list-style-type: none"> <li>• Regular, accurate and complete financial and performance reports ; The financial statements and other information to be included in the annual report are not adequately reviewed for completeness and accuracy prior to submission for audit. Misstatements were identified in the audit of various financial statement line items, and resulted in the correction of numerous misstatements on the financial statements. Management has not ensured accuracy over reporting of predetermined objectives in the annual report is achieved as variables disclosed in the annual performance report were inaccurate and may have result in the users of the report being misled by the results of the planned service delivery.</li> <li>• Formal control over IT systems ; Although the municipality has made some progress in addressing the weaknesses identified in the previous Auditor General review, the following weaknesses were still identified: <ul style="list-style-type: none"> <li>• User Access Control</li> <li>• Change Management</li> <li>• Facilities and Environment Controls</li> </ul> </li> </ul>			
7	<b>Investigations</b>	There were no reportable investigations in progress. There were no reportable investigations completed during the financial year.	2011/12 final management report, Section 2 part E paragraph 52 &53.	Service delivery	Currently two councillors are under investigation, and the human resources section is also busy with certain minor investigations
8	<b>Irregular expenditure</b>	Irregular expenditure of R53 072 incurred in the current financial year was as a result of the contravention of SCM legislation. This irregular expenditure was identified during the audit process and not detected by monitoring processes of the municipality. The root cause of the lack of effective prevention and detection are inadequate review over the supply chain management pre scripts and ensuring that all the supply chain management requirements are met as these emergency expenditures were authorised after the expenditures were incurred.	2011/12 final management report, Section 3 part A paragraph 54.	Service delivery	1. Systems have been put in place to avoid the payments of interest on creditors accounts 2. We have once again instructed our creditors not to supply goods and services without an official order. There are instances where employees procure goods without the officials procedures. 3. REGGIE WESSO
9	<b>Awards to persons in the service of the state</b>	SCM Regulation 44 prohibits awards to persons or to entities owned/ managed by them if they are in service of the auditee (i.e. employees and councillors) or if they are in service of any other state institution. The audit included the identification of such prohibited awards. Further testing was also performed to determine whether the legislated requirements with regard to declarations of interest were adhered to.	2011/12 final management report, Section 3 part A paragraph 55.	Service delivery, and non-compliance with laws and regulations	Currently we rely mostly on the declarations by bidders and suppliers as well as the declaration by employees. It would probably best to employ a verification company to ensure that goods and services are not procured from persons in the service of the state. This will still needs to be discussed with Council and Senior Management

10	<b>Awards to close family members of persons in the service of the state</b>	56. Awards to providers owned/ managed by persons that are close family members of persons in the service of the state, whether at the municipality or any other state institution, are not prohibited. However such awards of more than R2 000 must be disclosed in the financial statements of the municipality for the sake of transparency and as required by SCM Regulation 45. The audit included the identification of awards to close family members. Further testing was also performed to determine whether the financial statement disclosure was made and the legislated requirements with regards to declarations of interest were adhered to. The findings were as follows: 100% of the awards to close family members of persons in service of the state, amounting to R508 849, was identified during the audit process and not detected by monitoring processes of the municipality which has subsequently been disclosed in the financial statements.	2011/12 final management report, Section 3 part A paragraph 56.	Service delivery, and non-compliance with laws and regulations	Currently we rely mostly on the declarations by bidders and suppliers as well as the declaration by employees. It would probably best to employ a verification company to ensure reg 45 are adhered to. This will still needs to be discussed with Council and Senior Management
11	<b>Procurement process – Quotations</b>	One quotation to the total value of R71 560 was procured from a supplier who did not have tax clearance from SARS confirming that their tax matters are in order. One award to the value of R4 848 was procured where the provider did not have the lowest price quotation.	2011/12 final management report, Section 3 part A paragraph 58 & 59.	Service delivery, and non-compliance with laws and regulations	Procurement processes for quotations are above board
12	<b>Ineffective human resource management</b>	An assessment of human resource management has identified the following: Management of vacancies <ul style="list-style-type: none"> <li>• The overall vacancy rate increased from 9.8% in the previous year to 23.7% in the current year.</li> <li>• The senior (including top) management vacancy rate remained unchanged at 11.1% from the previous year.</li> </ul>	2011/12 final management report, Section 3 part B paragraph 61.	Compliance with laws and regulations	The municipality's organogram was compiled for the medium to long term. This is the reason why all vacancies have not yet been filled. Sufficient funding also has an impact on the filling of vacancies and the extension of capacity
13	<b>Consultants</b>	The municipality appointed the following consultants in the prior year and current year to perform technical assistance in the preparation of the financial statements and supporting accounting records, as the municipality does not have the required technical expertise and capacity to perform the required functions: <ul style="list-style-type: none"> <li>• A consulting firm was appointed to – Update the fixed asset register details, estimation of economic useful lives, calculations and financial statement disclosures.</li> <li>• Experts were appointed for the Unbundling of infrastructure assets.</li> <li>• An accounting firm was also appointed for the Independent review of the financial statements.</li> </ul>	2011/12 final management report, Section 3 part D paragraph 69.	Service delivery	The municipality does not always have the capacity or technical expertise to perform required functions and therefore will continue to make use of consultants from time to time

14	<b>Municipal regulations on minimum competency level</b>	Minimum competency regulations were issued on 15 June 2007. As per regulation 15 and 18, all municipalities must ensure that their staff comply with the competency requirements with effect from 1 January 2013. This means that the requirements are not yet applicable for the financial year 2011-12 (financial period ending 30 June 2012). However, municipalities will need to start aligning their recruitment policies to the regulations and put measures in place to ensure that they comply with the requirements by 1 January 2013.	2011/12 final management report, Section 4 paragraph 76.	Compliance with laws and regulations	The municipality is of the opinion that the designated staff members who should have attended the course, did in fact attend. All the results for the course that was completed are not yet available. Province's indication of which officials should attend the course will be appreciated. Because of budget constraints, council cannot afford to continue with this course.
<b>Compliance</b>					
15	<b>Long term liabilities not disclosed in accordance with IFRS 7</b>	During the audit of long term liabilities it was identified that the disclosure of long term liabilities did not include the disclosure required by IFRS 7. The long term liabilities are not disclosed in accordance with IFRS 7 and leads to a material misstatement in the financial statements. There was no rand amount stated on the 2011/12 final management report.	2011/12 final management report, annexure A finding 1.	Compliance with laws and regulations	The incorrect disclosure of the long term liability was also made in previous financial years and was not queried by the auditors. This has since been corrected and will not occur again.
16	<b>Understatement of creditors</b>	During the audit of the bank reconciliation it was identified that a number of reconciling items were incorrectly accounted for. The cheques were inspected and confirmed by reference to the bank deposit slip that the cheques were only presented for payment after year end. The cheques were not sent to the creditor but directly delivered to the bank by the municipality's employees. The electronic funds transfers were followed through to the bank statements of July 2012 and it was found that they were only released for payment in July 2012 as the transfer only showed on the bank statement on the 5th of July 2012.	2011/12 final management report, annexure A finding 2.	Compliance with laws and regulations	Notwithstanding that this has never been queried before, we will ensure that this does not happen again.
17	<b>Exceptions regarding the equitable share accounting treatment and disclosure</b>	Equitable share that is utilized for services delivered to indigents are currently recognized as a general expense of R11 048 239, disclosed in note 35 to the financial statements. Revenue is overstated by R11 048 239 due to the fact that it is recognized as revenue under grants and subsidies as part of the R23 227 000 revenue recognized for equitable share as well as revenue recognized under service charges as part of normal levies. The equitable share grant expenditure should therefore be reclassified to revenue as revenue forgone.	2011/12 final management report, annexure A finding 3.	Compliance with laws and regulations	For the first time this has been brought to our attention, and has been corrected and will never occur again.
18	<b>Contracts and contract management review of performance of suppliers [Comaf 2]</b>	There is no proof or evidence to indicate that the municipality reviewed the performance of the suppliers. No review of monthly performance of suppliers could lead to suppliers not performing or breaching of contracts by the suppliers.	2011/12 final management report, annexure B finding 4 (comaf 2).	Internal Control Deficiency	Refer to GAP analysis
19	<b>The Mid-Year Budget and Performance Report was not completed in the prescribed time period [Comaf 2]</b>	During compliance testing it was identified that the Hessequa Municipality did not complete and submit the Mid-Year Budget and Performance Report within the time period prescribed by the MFMA and only submitted the report on 6 February 2012.	2011/12 final management report, annexure B finding 5 (comaf 2).	Non-compliance with laws and regulations, and material misstatements	All steps have been taken to ensure that this does not occur again, and it has been correctly 2012/2013

20	<b>The Adjustments budget was not made public [Comaf 3]</b>	During compliance testing it was identified that the approved adjustments budget were not made public.	2011/12 final management report, annexure B finding 6 (comaf 3).	Non-compliance with laws and regulations, and material misstatements	This will be done as from 2012/2013
21	<b>Service Delivery and Budget Implementation Plan (SDBIP) was not approved by the Mayor nor submitted to the public or National Treasury [Comaf 2]</b>	During the testing of the compliance to the above mentioned legislation, it was identified that the Service Delivery and Budget Implementation Plan (SDBIP) was not approved and signed by the mayor or made public. In addition the Service Delivery and Budget Implementation Plan (SDBIP) were not submitted to the National Treasury until 18 August 2011.	2011/12 final management report, annexure B finding 7 (comaf 3).	Non-compliance with laws and regulations, and material misstatements	All steps have been taken to ensure that this does not occur again, and it has been correctly 2012/2013
22	<b>Monthly budget reports and Mid-Year Budget and Performance Report were not placed on the website of Hessequa Municipality [Comaf 2]</b>	During the compliance testing relating to the monthly budget statements (section 71 report) it was identified that only the monthly budget reports of the first quarter of 2011/2012 was added to the website of Hessequa Municipality and that the Mid-Year Budget and Performance Report was not placed on the municipality's website.	2011/12 final management report, annexure B finding 8 (comaf 2).	Non-compliance with laws and regulations, and material misstatements	1. The monthly Section 71 reports have been put on the website 2. The mid-year report as well as the mid-year performance report is on the website for 2012/2013
<b>Control environment</b>					
23	<b>No formal risk assessment performed [Comaf 6]</b>	It was noted that the risk assessment performed by Hessequa Municipality not all managers contributed to identifying risks for their divisions.  A formal risk assessment was last performed in 2008. Since then the different department heads were asked to submit specific risks pertaining to their departments. Consequently, no formal risk assessment has been performed, which is a concern in terms of adequate and effective risk management.  No adequate mechanisms exist to identify risks to the entity arising from internal factors.	2011/12 final management report, annexure B finding 9 (comaf 6).	Internal control deficiency	Tenders are currently being procured for the risk assessment, and should be completed before the 30th June 2013.
<b>HR Management</b>					
24	<b>Minimum competencies not yet attained are not included in performance agreements as targets to be achieved [Comaf 7]</b>	The performance agreements of the municipal manager, chief financial officer, senior managers and head of supply chain who did not have the minimum competencies, did not include the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels Reg 16(2).  This results in non-compliance with the Municipal Finance Management Act - Municipal regulations on minimum competency levels.	2011/12 final management report, annexure B finding 10 (comaf 7).	Non-compliance with laws and regulations, and material misstatements	3 This has been included in the 2012/2013 performance agreements

25	<b>Manager Corporate Services in an acting management position for a period exceeding 3 months without MEC approval [Comaf 7]</b>	The Manager: Corporate Services position has been vacant since 2010. The position has been filled by an acting manager for a period exceeding 3 months without permission being obtained from the MEC for local government, for an additional period that does not exceed 3 months.  This results in non-compliance with the Local Government: Municipal Systems Amendment Act, No.7 of 2011	2011/12 final management report, annexure B finding 11 (comaf 7).	Non-compliance with laws and regulations, and material misstatements	N/A
<b>Immovable assets</b>					
26	<b>VAT incorrectly claimed on capital expenditures [Comaf 3]</b>	The following exceptions were noted regarding the VAT invoices of the A2/Mabungwe Joint Venture supplier: • None of the VAT invoices contained the VAT registration number of the supplier. • The VAT per the supplier invoices for payment vouchers 101281 and 101297 were R0 on the invoice, although VAT was claimed. • A2/Mabungwe Joint Venture could not be verified with a SARS VAT vendor search. As a result: • VAT were incorrectly claimed as the supplier invoices for A2/Mabungwe Joint Venture are not valid. • VAT invoices per the VAT act of South Africa, which could result in penalties and interest. • VAT receivable are overstated and property, plant and equipment understated by R372 353.	2011/12 final management report, annexure B finding 12 (comaf 3).	Non-compliance with laws and regulations, and material misstatements	Control measures have been put in place to ensure that no vat is claimed contrary to vat legislation
27	<b>Under spending of the capital budget [COMAF 3]</b>	According to the financial statements, the capital budget for the 2012 financial year was R72 077 120. However, capital spending for the year was R65 627 791, which resulted in an under spending of the capital budget of R6 449 329. This under spending could have a negative impact on service delivery to the Hessequa tax payers.	2011/12 final management report, annexure B finding 13 (comaf 3).	Service delivery	1. At the end of January 2013 the following amounts were spent i.r.o. the capital budget - 22.1% (R10.821m) of the total budget of R48.915m 2. The deviations from the SDBIP projections is 55% and an amount of R24.253m should have been spent. (Actual R10.821m) 3. The planning of the projects and the asking for tenders was done in the first half of the financial year, and spending on these started in January 2013. It is envisage that the maximum peak spending will take place between March and May 2013 and that the capital budget will be fully spent at yearend.
28	<b>Land not in the name or control of the Municipality [Comaf 4]</b>	The valuation roll was reconciled to the land and buildings fixed asset register and it was identified that properties on the fixed asset register are not the property of the municipality as the ownership was transferred and the properties are not under the control of the municipality. As a result, Property, plant and equipment and accumulated surplus are overstated by R215 500 as ownership of these properties was transferred prior to the financial year ended 30 June 2012.	2011/12 final management report, annexure B finding 14 (comaf 4).	Misstatements in the financial statements	This has been corrected
29	<b>Completeness of the land and buildings fixed asset register [Comaf 4]</b>	The valuation roll was reconciled to the land and buildings fixed asset register and it was identified that properties registered in the name of the municipality on the valuation roll are not included in the fixed asset register. As a result, The fixed asset register is incomplete and understated by R1 369 000.	2011/12 final management report, annexure B finding 15 (comaf 4).	Misstatements in the financial statements	This has been corrected

30	<b>Infrastructure with no carrying values at 30 June 2012 [Comaf 3]</b>	<p>The asset register was inspected and it was identified that various infrastructure assets were fully depreciated and consequently did not have a carrying value in use at 30 June 2012. The total cost of these infrastructure assets with a zero carrying value amounts to R254 691 and are included in the table below.</p> <p>It was also identified that the useful life of these assets were adjusted but no correction to the depreciation and carrying value was made. These adjustments were consequently not treated as a change in accounting estimate as required by GRAP17: Property, plant and equipment and GRAP3: Accounting policies, change in accounting estimates and errors for accounting purposes.</p> <p>Consequently, the carrying value of infrastructure assets are understated by R41 379 if an adjustment of 2 years to the remaining useful life is used.</p>	2011/12 final management report, annexure B finding 16 (comaf 3).	Misstatements in the financial statements	This has been corrected
31	<b>Change in useful life of infrastructure assets [Comaf 4]</b>	<p>It was identified that the useful life of certain of these assets were adjusted but no correction to the depreciation and carrying value was made. These adjustments were consequently not treated as a change in accounting estimate as required by GRAP17: Property, plant and equipment and GRAP3: Accounting policies, change in accounting estimates and errors for accounting purposes. The total population was evaluated and if the change in the useful life was taken into consideration as a change in accounting estimate.</p> <p>Consequently, depreciation is understated with R175 341. • Infrastructure assets are not depreciated over its actual useful life, resulting in the understatement of the carrying value of infrastructure of R175 341. • Non-compliance with the accounting requirements of GRAP17 and GRAP3.</p>	2011/12 final management report, annexure B finding 17 (comaf 4).	Misstatements in the financial statements	This has been corrected

32	Physical verification of assets exceptions [Comaf 4]	<p>During the physical inspection of assets, the following exceptions were identified:</p> <ul style="list-style-type: none"> <li>•Descriptions in the asset register did not agree to the actual asset verified,</li> <li>•assets could not be identified due to Projects were incorrectly unbundled from tender documents and not from documents representative of the work actually done.</li> </ul> <p>Not all work as per the tender document was completed during the year and will be completed in the following year.</p> <p>There is no financial impact on the annual financial statements, as the detail descriptions etc. in the asset register are incorrect and not the value of the capital expenditure.</p> <p>Although the total value recognised as capital expenditure is correct, the incorrect unbundling and descriptions could result in incorrect individual component values and economic useful lives. Consequently, future depreciation could be incorrect resulting in the misstatement of the carrying value of property, plant and equipment.</p>	2011/12 final management report, annexure B finding 18 (comaf 4).	Internal Control Deficiency	This has been corrected
<b>Movable assets</b>					
33	Accurate accounting treatment of Property, plant and equipment corrections of errors [Comaf 1]	<p>The following exceptions were noted regarding the accounting treatment of corrections of errors relating to property, plant and equipment, as disclosed in note 10 to the financial statements:</p> <ul style="list-style-type: none"> <li>• Included in the correction of error relating to land and buildings was the recognition of erf in "Stille Heuwels" to the value of R36 700. This correction was recognised as a debit in the 2011 "transfer of cost" movement. This erf was disposed of in the 2012 year and should consequently have been recognised as non-current assets held for sale.</li> <li>• The reversal of the 2011 disclosed incorrect other assets disposals amounting to R103 336 (cost) and R101 480 (accumulated depreciation), was incorrectly reversed against the carrying values at 1 July 2010, instead of against the 2011 disposals.</li> </ul> <p>The cost correction of error at 1 July 2010, as disclosed in note 10 to the financial statements of R146 179, incorrectly includes the 2011 disposal correction of R103 336, and the accumulated depreciation correction of error at 1 July 2010, as disclosed in note 10 to the financial statements of R71 227, incorrectly includes the 2011 disposal correction of R101 480.</p> <ul style="list-style-type: none"> <li>• The additional R61 484 depreciation recognised in the 2011 restated correction of error figures was incorrectly recognised as part of comparative other income, instead of</li> </ul>	2011/12 final management report, annexure B finding 19 (comaf 1).	Misstatements in the financial statements	This has been corrected

		comparative depreciation.			
		<p>The land was recognised as land and buildings in order to recognise the asset to be able to dispose of the erf in the 2012 financial year.</p> <ul style="list-style-type: none"> <li>• Incorrectly recognised as part of the opening balance as at 1 July 2010 of property, plant and equipment.</li> <li>• Incorrectly recognised as part of other income as the additional other assets recognised was recognised as comparative income.</li> <li>• Land and buildings are overstated and non-current assets held for sale understated by R36 700 respectively as at 30 June 2011.</li> <li>• The cost, accumulated depreciation and carrying value as at 1 July 2010 are understated by R103 336, R101 480 and R1 856 respectively.</li> <li>• The comparative 2011 depreciation and amortisation and other income as disclosed in the statement of financial performance are understated by R61 484 respectively.</li> </ul>			
34	<b>Change of useful lives of other assets [Comaf 3]</b>	<p>It was identified that the useful life of various other assets in the fixed asset register was adjusted in the financial year ending 30 June 2012, although no change in accounting estimate disclosure was made in the financial statements. The change in useful lives in the fixed asset register occurred due to the following:</p> <ul style="list-style-type: none"> <li>• The useful life of various other assets was adjusted due to the assets being at the end of its useful lives according to the fixed asset register, although the assets are still in use. It was however evaluated that these changes in useful lives are not due to new developments or information and should have been treated as a retrospective correction of error and not a prospective depreciation adjustment as the original estimation of the useful life was incorrect.</li> <li>• A change in useful life due to the allocation of new asset numbers for various toolbox items. This resulted that the incorrect date was brought forward from the previous asset register, resulting in the assets appearing to be at the end of its useful life, although it is not the case. Consequently, the useful life adjustments originated due to an error in the current fixed asset register and not due to an actual useful life adjustment.</li> </ul>	2011/12 final management report, annexure B finding 20 (comaf 3).	Misstatements in the financial statements	This has been corrected

		<p>The total population of the above mentioned was inspected and recalculated and it was established that the misstatement regarding these useful life adjustments are clearly trivial. Consequently, it is not required that the financial statements should be adjusted. This is however reported due to the internal control deficiency and the financial effect and accuracy of the fixed asset register for future periods.</p> <ul style="list-style-type: none"> <li>•The fixed asset register contains inaccurate information and errors resulting in unnecessary useful life adjustments.</li> <li>•The useful life adjustments are not treated and disclosed in the financial statements as required by GRAP 3.</li> </ul>			
35	<b>Incorrect useful lives not in accordance with the accounting policy [Comaf 4]</b>	<p>It was noted that the useful lives of various assets as per the fixed asset register are not in accordance with the useful lives as per the accounting policy to the financial statements.</p> <p>It was identified that this resulted due to the retrospective recognition of assets with acquisition dates prior to 1 July 2007 in the fixed asset register with the status per the fixed asset register of "fair value – not recognized in 2010/2011"</p> <p>The useful lives of these moveable assets were evaluated and deemed to be not representative of the estimated economic useful life of these assets.</p> <p>The verified condition of the assets as documented in the fixed asset register was also inspected and identified to be fair to very poor. This is also representative that the useful lives as included in the fixed asset register are overstated.</p> <p>Based on a recalculation by adding an additional 3 years to the useful life from 1 July 2011 the book value of these assets as at 30 June 2012 are overstated by R30 976.</p> <p>The following misstatements exist:</p> <ul style="list-style-type: none"> <li>•Overstatement of the book value and understatement of accumulated depreciation of other assets as at 30 June 2011 by R27 454.</li> <li>•Overstatement of the book value and understatement of accumulated depreciation of other assets as at 30 June 2012 by R30 976.</li> <li>•Understatement of depreciation as at 30 June 2012 by R3 523.</li> </ul>	2011/12 final management report, annexure finding 21 (comaf 4).	Misstatements in the financial statements	This has been corrected
36	<b>Fixed asset register not reconciled on a monthly basis [Comaf 3]</b>	<p>The municipality did not perform the monthly reconciliation between the general ledger and the excel fixed asset register.</p> <p>Insufficient fixed asset register controls could result in unexplained differences, which could be costly and time consuming to address.</p>	2011/12 final management report, annexure B finding 22 (comaf 3).	Internal Control Deficiency	We are currently busy capturing the asset register on the Venus financial system. This will ensure that depreciation is calculated on a monthly basis as from March 2013. Once the assets have been captured, inventory items will be capitalized on a monthly basis, while all the other capital projects will only be captured at yearend once they have been unbundled. (most of the projects to be unbundled is still WIP)
<b>Operating expenditure</b>					

37	<b>Duplicate payment - Eskom [Comaf 2]</b>	<p>During the audit procedures performed on expenditure it was noted that a duplicate payment for supplier Eskom was made in August 2011. Cheque TES00100099373 was paid on 20 July 2011 and the duplicate payment cheque TES00100099464 was paid on 3 August 2011.</p> <p>The duplicate payment amounted to R2 005 904 (VAT exclusive) and VAT input amounting to R280 827 was also claimed.</p> <p>This has resulted in the loss of cash flow for the municipality due to the internal control deviation and non-compliance to the Value Added Tax Act 89 of 1991 as input VAT was claimed twice on the same invoice.</p>	2011/12 final management report, annexure B finding 23 (comaf 2).	Internal Control Deficiency	Another duplicate payment to Eskom occur in the beginning of the 2012/2013 financial year, and all possible steps have been put in place to avoid a recurrence of this.
38	<b>Invoice not paid within 30 days [Comaf 2]</b>	<p>During the audit procedures performed on general expenses it was noted that suppliers were not paid within 30 days of date of invoice received by Hessequa Municipality.</p> <p>The total extrapolated error is 1 809 invoices out of the total population of 31 115 invoices and represents non-compliance of 6% of the total invoices paid.</p> <p>It was also noted that there were no purchase order for payment voucher TES90190008235 amounting to R33 135. The result was that discount of R 1 643 was not received by the municipality and is regarded as Fruitless and Wasteful expenditure. The fruitless and wasteful expenditure of R1 643 was not disclosed in note 52.2 Fruitless and wasteful expenditure.</p>	2011/12 final management report, annexure B finding 24 (comaf 2).	Internal Control Deficiency	As a rule all invoices are paid within 30 days of date of invoice, except where goods have been procured in a non-compliant manner, or where there is an outstanding query on the invoice.
59	<b>Operating Expenditure: Incorrect vote allocation (COMAF 2)</b>	Printing and stationery is overstated and Travel and Subsistence is understated by R40 560, as disclosed in note 35 General Expenses in the notes to the financial statements for the year ended 30 June 2012.	2011/12 final management report, annexure C finding 3 (comaf 2).	Internal Control Deficiency	All possible steps are taken to avoid incorrect vote allocations. We cannot however ensure that this will not happen again on a smaller scale.
60	<b>Operating Expenditure: VAT input incorrectly claimed (COMAF 2)</b>	During the audit procedures performed it was noted that VAT input was incorrectly claimed on entertainment (donation of food). Non-compliance with the Value Added Tax Act 89 of 1991 section 17(2).	2011/12 final management report, annexure C finding 4 (comaf 2).	Internal Control Deficiency	This was as a result of an incorrect interpretation and will be limited as far as possible
<b>Payable</b>					
39	<b>Unallocated deposits older than three years [Comaf 5]</b>	<p>Included in other creditors of R6 173 085 (2011: R6 713 367) is unallocated bank deposits of R1 381 104 (2011: R1 560 848) of which R894 797 (2011: R758 577) is older than three years. It seems that the old outstanding balances is not followed up regularly, therefore the increase in amounts older than 3 years.</p> <p>In addition, the VAT Act stipulates that where more than four months have passed since the receipt of the overpayment or a deposit, and the consumer does not have an outstanding account against which the available funds can be utilised, the output VAT should be declared on the available amount (it is a 'deemed supply' per section 8(27) of the VAT Act, which deems the unallocated deposit to be consideration received for a supply of services performed by the vendor.</p> <p>Output VAT of a maximum of R169 609 should be declared and paid to SARS. As a result, creditors might be overstated by R894 797 while VAT payable and other revenue is understated with R169 609 and R725</p>	2011/12 final management report, annexure B finding 25 (comaf 5).	Misstatements in the financial statements	This will be rectified during 2012/2013

		188 respectively.			
<b>Pre-determined objectives</b>					
40	<b>Accuracy of actual performance disclosed in the annual performance report [Comaf 5]</b>	During the selection of key performance indicators tested it was evaluated that the actual results recorded and disclosed in the KPI report and annual performance report are inaccurate.	2011/12 final management report, annexure B finding 26 (comaf 5).	Misstatements in the annual performance report	The internal audit section will monitor on a monthly basis. This will ensure more accurate reporting
41	<b>Section 72 mid-year report does not contain progress on problems identified in annual report [Comaf 4]</b>	During the audit of pre-determined objectives it was confirmed that the section 72 mid-year report did not contain progress on resolving problems identified in the previous year's annual report.	2011/12 final management report, annexure B finding 27 (comaf 5).	Misstatements in the annual performance report	This has now been addressed
42	<b>Integrated Development Plan does not contain Key performance indicators and targets [Comaf 3]</b>	The integrated development plan did not reflect the key performance indicators and key performance targets determined in terms of section 41 of the Municipal Systems Act. This results in non-compliance with the Municipal Systems Act section 26.	2011/12 final management report, annexure B finding 28 (comaf 5).	Misstatements in the annual performance report	1. With the compilation of the 2013/2014 IDP the "indicators" have been included in the draft plan.
43	<b>No budget allocation per objective/development priority in integrated development plan [Comaf 3]</b>	In terms of Local Government: Municipal Planning and Performance Management Regulations 2001, Section 120, read with sections 37, 43 and 49 of the MSA, the municipality should set a framework for performance targets consistent with the development priorities, objectives and strategies as per their integrated development plan (IDP).  There should be a corresponding budget allocation for each development priority/objective in the approved integrated development plan. There was no corresponding budget allocation for each development priority/objective in the approved integrated development plan that could be linked to key performance indicators. (This exemption is underlying to the issue written regarding the integrated development plan not containing key performance indicators and targets.)	2011/12 final management report, annexure B finding 29 (comaf 3).	Misstatements in the annual performance report	We are currently busy connecting the cost centres to the relevant IDP objectives, and this will be included in the final IDP document for 2013/2014

44	<b>Performance management system does not establish a process of regular reporting [Comaf 4]</b>	During the testing of predetermined objectives it was confirmed that the municipality's performance management system did not establish a process of regular reporting to— (i) the council, other political structures, political office bearers and staff of the municipality; and (ii) the public and appropriate organs of state.	2011/12 final management report, annexure B finding 30 (comaf 4).	Misstatements in the annual performance report	Reporting is now being done according to legislation
45	<b>Portfolio of evidence and measurability of performance information [Comaf 5]</b>	Sufficient appropriate audit evidence/relevant source documentation could not be provided to measure the validity and accuracy of the following key performance indicators selected: • % water quality level of waste water discharge • No of new water connections per annum • No of new electricity connections per annum • % water quality level The above mentioned represents 9% of the total indicators selected for testing. The actual results of the mentioned key performance indicators could not be measured in order to verify the accuracy and validity of the reported results.	2011/12 final management report, annexure B finding 31 (comaf 5).	Misstatements in the annual performance report	We are currently revisiting the KPI in order to ensure that they are measurable.
46	<b>Key performance indicators [Comaf 5]</b>	Key performance indicators (KPI) and units of measurement (6,8% of indicators selected) were not well defined or did not correspond with the portfolio of evidence (POE). The accuracy and validity of the reported actual results could not be verified. Refer to the detail in the management report.	2011/12 final management report, annexure B finding 32 (comaf 5).	Misstatements in the annual performance report	We are currently revisiting the KPI in order to ensure that they are measurable.
<b>Receivables</b>					
47	<b>Impairment of trade receivables [Comaf 5]</b>	The current financial year provision for impairment of trade receivables of R8 929 783 recognized in the financial statements was determined through evaluating each debtor account individually. By performing the audit procedures it was identified that the provision for impairment does not appear complete.  To verify that the amount recognized is reasonable we wanted to use the payment history percentage for the different categories of debtors and determine what amount of outstanding debt balances appear recoverable.  This information could not be provided due to the fact that the accounting system cannot produce such a report. A few large outstanding debt balances was specifically selected from the age analysis and the recoverability determined.  The only other method was to select a sample of debtors with long outstanding balances and inspect their related debtor accounts after year end, for any subsequent payments received. To evaluate if the provision for impairment calculated is reasonable and in line with the related risk concerning long outstanding debt, the provision amount was compared to the total outstanding debt amount for 90 days and older.	2011/12 final management report, annexure B finding 33 (comaf 5).	Misstatements in financial statements	Hessequa uses a system whereby the impairment of trade receivables is calculate on a line for line basis. The mayor debt lies vacant property and to calculate impairment for this will result in an overstatement of the provision, because the recovery of this debt is certain. (council has the right to attach vacant properties to settle the debt)
48		The remaining total outstanding debt balance for 90 days and older according to the age analysis is R13 070 101. The government debtor balance of R267 635 is excluded as no provision is made on government debt.  Based on the sample percentage of debtors with no subsequent payment received after year end, an amount of R9 056 251 appear to be a reasonable			Hessequa uses a system whereby the impairment of trade receivables is calculate on a line for line basis. The mayor debt lies vacant property and to calculate impairment for this will result in an overstatement of the provision, because the recovery of this debt is certain. (council has the right to attach vacant properties to settle the debt)

		<p>provision for impairment of trade receivables.</p> <p>The total provision for impairment bases on the available information is: The current year provision is therefore understated by R753 057.</p> <p>Our conclusion that long outstanding debtors becomes increasingly difficult to recover was further supported by comparing the current year monthly levies with the total amount of receipts for the year. It was determined that most of the current levies are paid each month and that the long outstanding debtors are difficult to recover. This calculation indicated that the increase in debtors due to the current year increase in trade receivables were sufficiently provided for by increasing the provision from R7 181 954 to R8 929 783.</p> <p>For the sample of debt balances selected the individual debtor accounts were scrutinized for the past two years to determine if regular payments were received. No assurance was obtained that outstanding debt is recoverable as there was very few payments received.</p> <p>The current difficult economic condition furthermore serves as a key indicator for possible impairment of the trade receivable balance, especially the long outstanding balances.</p> <p>Taking the above into account we conclude that the provision for impairment is understated. There is no process in place to ensure that the outstanding debt balances will be recovered within 12 months after year end, indicating that trade receivables are possibly incorrectly classified as current assets.</p> <p>Evidence regarding the fact that outstanding debt is actually recoverable could not be provided. Provision for impairment is understated by R753 057 which leads to trade receivables being overstated in the financial statements.</p>			
49	Trade receivables incorrectly recognised [Comaf 4]	<p>During the performance of the audit procedures it was identified that an amount of R2 283 214 which relates to government subsidies was incorrectly recognised as trade receivables.</p> <p>According to GRAP 1 an asset can only be recognised when the resources are controlled by the entity. Supporting documentation from National treasury was inspected and there is no indication that the amount will definitely be paid out to the entity. The entity therefore has no control over the asset.</p> <p>This outstanding amount comply with the definition of a contingent asset as this amount is only a possible asset and the existence will only be confirmed in the future when National Treasury makes the final decision. Trade receivables and government grants and subsidies are being overstated by R2 283 214.</p>	2011/12 final management report, annexure B finding 34 (comaf 4).	Misstatements in financial statements	We are in contact with National Treasury about this matter and we trust that it will be finalised during 2012/2013.

50	<b>Bad debts write offs not approved [Comaf 6]</b>	<p>During the performance of the audit procedures on bad debts written off, it was noted that the council approval was not obtained for the debts written off amounting to R2 069.87.</p> <p>It was also identified that council resolutions, regarding approval for bad debt write offs, were not always implemented by adjusting the debtor accounts. Outstanding debt balances can be written off as bad debt without council authorisation. This will lead to a loss of income for the municipality. The risk exists that council resolutions were not appropriately implemented.</p>	2011/12 final management report, annexure B finding 35 (comaf 6).	Misstatements in financial statements	Measures have been put in place to avoid a recurrence of this.
<b>General Information Technology Controls</b>					
51	<b>No evidence of IT service performance monitoring</b>	<p>Although meetings are held with IT service providers on a regular basis, no evidence could be provided to confirm that the IT services provided by third parties were being monitored.</p> <p>Without formal monitoring of the services provided by third parties there is no way to hold the third party accountable for non-delivery of agreed service levels, which could result in unplanned additional expenditure.</p>	2011/12 final management report, Annexure B finding 36.	Internal Control deficiency	This problem will be addressed once the proposed contract management system on collaborator is in place
52	<b>User account management policies and procedures</b>	<p>As reported during the previous audit, user access controls to mitigate the risk of unauthorised access to the network and application systems are informal and have not been documented or approved. As a result, the following user account management weaknesses still exist for the Venus and PAYDAY systems:</p> <ul style="list-style-type: none"> <li>• User account management policies and procedures were not documented or approved.</li> <li>• Regular reviews of user access profiles were not performed to confirm whether access is appropriate to users' job roles and responsibilities.</li> </ul> <p>Weaknesses in user access controls increase the risk of unauthorised access being gained to the application systems which could compromise the integrity of the data on the system.</p>	2011/12 final management report, annexure B finding 37.	Internal Control deficiency	The financial system of the municipality has access controls in place. For the rest of the systems we have ask province for assistance .
53	<b>Disaster recovery plan</b>	<p>Although a disaster recovery plan was documented in 2009, no evidence was in place to confirm that the plan has been tested and reviewed.</p> <p>Without an adequate disaster recovery plan and disaster recovery site, the municipality may not be able to recover its operations within a reasonable period the event of a disaster.</p>	2011/12 final management report, annexure B finding 38.	Internal Control deficiency	We are currently in a tender process to procure a service provider to address this.
54	<b>Lack of program change management procedures</b>	<p>Change management procedures had not been designed or implemented. As a result, programmer access to the production environment is not being monitored.</p> <p>There is increased likelihood of unauthorised changes being introduced to key business systems if changes are not properly managed. This could result in the application being unstable.</p>	2011/12 final management report, annexure B finding 39.	Internal Control deficiency	We have ask Province to help us with this matter

55	<b>Weaknesses in physical access and environmental controls</b>	<p>Controls have been implemented since the prior year audit to improve the physical and environmental security of the servers at the municipality. However, these controls do not adequately address the risk of unauthorised access to the servers. As a result, the following weaknesses were still identified</p> <ul style="list-style-type: none"> <li>• Although the area around the servers has been secured with walls and a door that can be locked, these are made of glass and can be easily compromised. The surrounding windows have also not been secured.</li> <li>• There were no water and smoke detectors in the server room.</li> <li>• The server room was not in a neat/tidy condition with loose cables as well as flammable materials in clear view.</li> <li>• No maintenance schedule for the environmental controls equipment is in place.</li> </ul> <p>The lack of adequate physical access security may result in unauthorised people gaining access to sensitive IT facilities, increasing the chances of hardware being stolen, devices being reconfigured without authorisation and confidential information being compromised.</p> <p>Without adequate environmental controls, IT processing facilities may be exposed to negative environmental impacts and unprecedented downtime due to power outages, fires, water damage and other facility-related risks. In addition, failure to adequately maintain or service environmental controls may result in the untimely breakdown of these controls and expose the server room to negative environmental impacts and downtime.</p>	2011/12 final management report, annexure B finding 40.	Internal Control deficiency	We have budgeted for this in the 2013/2014 budget
<b>Lease</b>					
58	<b>Finance leases incorrectly classified as operating lease (COMAF 5)</b>	<p>During the audit of operating leases it was identified that leases of equipment that should have been accounted for as Finance leases were treated as an Operating lease. The following leases were identified that should be accounted for as Finance leases:</p> <p>Konica Minolta, account number 457061600361  Konica Minolta, account number 3010041600361  Panasonic, account number 1585041600361</p> <p>The effect of the incorrect classification is trivial, but we would like to emphasize the importance of correctly identifying finance leases.</p>	2011/12 final management report, annexure C finding 2 (comaf 5).	Misstatements in the financial statements	This will be rectified in 2012/2013
<b>Revenue</b>					
61	<b>Revenue: Property rates revenue incorrectly recognised (COMAF 3)</b>	<p>During the performance of the audit procedures it was identified that an estimated amount of revenue was recognised for the interim valuation held between 1 January 2012 and 30 June 2012 regarding the interim valuation roll not yet received at year end. A total amount of R50 000 was recognised for property rates income and sundry debtors. Revenue cannot be recognised for probable revenue and should only be recognised when the amount is certain and the municipality is entitled to the income. An estimate of revenue for property rates could not be substantiated with an interim valuation roll. This leads to Revenue and Trade receivables being overstated by R50 000.</p>	2011/12 final management report, annexure C finding 5 (comaf 3).	Misstatements in the financial statements	This matter has been settled



## Supply Chain Management

### ***Introduction***

As an organisation, Hessequa Municipality is focused on sustainability, service delivery excellence, local economic development and financial viability. With these values in mind, Hessequa municipality supports the “Proudly South African” campaign; promote “green” procurement and encourage preference for goods and services supplied, manufactured and produced within the Hessequa region.

As the supply chain leader, Hessequa Municipality is committed to improved performance of its supply chain and supplying both its internal and external customers with the highest quality goods and services at the right price, right time, right quantity, from the right supplier, to the right place.

### ***Hessequa Municipality: Vision & Strategic Objectives***

A caring municipality where everyone reaps the fruit of cost effective and innovative service delivery, stimulated economic growth and sustainable use of natural resources

- Empowerment of communities through effective communication and participation
- Ensuring a sustainable future through effective conservation and restoration of natural resources, limiting the impact of our presence in the ecology and returning to a heritage of preservation
- An Innovative approach to maintenance of all services and assets, as we develop infrastructure that secures growth in a sustainable manner
- Efficient and cost effective service delivery to all our residents, of the best quality and quantity.
- Development of socially and culturally prosperous and safe communities through strategic investment in integrated human settlement
- A special focus on human development to enhance the social wellbeing of our residents
- Developmental interventions that would stimulate economic growth, to the benefit of all communities
- A prepared local authority with a fit for purpose workforce, creating equal opportunities for all residents in a transparent, accountable and measurable manner

### ***SCM Vision***

“To have created and established an Efficient and Effective Supply Chain focused on improved service delivery and the promotion of economic and environmental sustainability aimed at local economic development and enhancing the financial viability of Hessequa Municipality by 30 June 2014

### ***SCM Mission***

Hessequa Municipality procure goods and services to provide top quality service delivery for its constituency. These goods and services will be procured through a system which is fair, equitable,

transparent, competitive and cost-effective and in line with legislative provisions. Goods and services will be procured by means of sustainable practices in line with organisational objectives.

***SCM Values***

- Batho Pele (People First)
- Value for money
- Economic and Environmental sustainability
- Ethics (Doing the right thing)
- Service Delivery
- Legislative Compliance
- Risk Mitigation

***SCM Objectives***

- Improved Service Delivery
- Value for Money
- Local Economic Development
- Risk Mitigation

***Major Goals***

- Spent 60% of procurement budget on goods and services supplied in the Hessequa region by June 2014
- 100% Legislative compliance by June 2014
- Certified training on Municipal SCM related aspects for all officials involved in SCM by June 2013
- SCM unit 100% capacitated by June 2014 as per current approved structure
- Improve efficiency by reducing the requisition turnover time to an average of 3 working days and 60% of stock items available for immediate use by June 2014
- Zero Audit qualifications for SCM by June 2014

***Strengths, Weaknesses, Opportunities & Threats***

<p><u>Strengths</u></p> <ul style="list-style-type: none"> <li>• Dedicated and determined SCM unit</li> </ul>	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> <li>• Planning not integrated</li> </ul>
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<ul style="list-style-type: none"> <li>• Continuously strive for improvement</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of capacity – Personnel and training</li> <li>• No Logistics system in place</li> <li>• No Contract management system in place</li> <li>• Lack of funds</li> <li>• No means of monitoring and evaluating progress</li> </ul>
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> <li>• Develop local suppliers to supply commodities and services not available in the region or to improve to a particular service level</li> <li>• Include developmental initiatives of local suppliers and local labour in all major projects e.g. NCDP</li> <li>• Donor funding for supplier/contractor development as well as the development of local labour, e.g. EPWP</li> <li>• Green Revolution</li> </ul>	<p><u>Threats</u></p> <ul style="list-style-type: none"> <li>• Tender Collusion or Bid Rigging</li> <li>• Local Suppliers do not have the competitive advantage</li> <li>• No suppliers for certain commodities or for certain expertise locally</li> <li>• Recessionary economic climate</li> </ul>

***Strategic Action Programmes***

Head: SCM – Develop Contract Man & Administration system

Head: SCM – Develop Logistics Management system

Head: SCM - Develop M&E system

Manager Socio-Economic Development & Housing - Develop LED Register

Managers – Conduct needs analysis

EPWP & CDP Champion – Devise and Implement contractor and supplier development programme

Managers Technical Departments - Obtain funding for these programmes

CFO, MM, Council - Capacitate the SCM unit

## FOCUS AREA 2: EFFECTIVE COMMUNICATION AND PARTICIPATION

### Public Participation

#### ***Public Participation Framework***

The Hessequa public participation framework identifies the need for the public to be involved in the matter of local government and attempts to structure their involvement in different categories. The primary reason for a structured approach is to be able to communicate the opportunities with the public. It also creates the opportunity to immediately communicate the goal of the participation opportunity with the public or interested individuals or groupings. The Hessequa Municipality structures these opportunities in three categories:

#### **Sector/Focus Group Engagements**

Sector and/or Focus Group Participation aims at getting interested groupings or individuals involved in processes strategic in nature. These are mostly driven by the IDP process and creates platforms with very specific outcomes to be reached. Examples of Sector / Focus Group Engagements:

- Social Development Engagements
- Community Safety Engagements
- Environmental Management Engagements
- Economic Development Engagements

#### **Broader Public Consultations**

Broader Public Consultations are opportunities that are created on a regular timeframe for engagement with the public in a broader and more open way. These types of engagements are mainly sorted into two different platforms.

1. Ward Committees
  - a. Ward committees are legislated requirements for municipalities and they are implemented for continuous participation of wards in the matters of local government
  - b. Ward committees does not have any decision-making powers, but serve as the primary public platform for advising the Council about matters relevant to a specific ward.
  - c. Ward Committees should meet on a monthly basis.
2. Mayoral Outreach Program
  - a. The Mayoral Outreach programme is a program where quarterly meetings are held in almost every town throughout the Hessequa region
  - b. Each quarter has a different theme and it is normally linked with municipal processes to inform the public about it.
    - i. Quarter 1: Communication of IDP & Budget processes for the coming year
    - ii. Quarter 2: Notice of due dates for inputs to the IDP & Budget processes
    - iii. Quarter 3: Overview of all Inputs to IDP & Budget Received and Budget Framework presented

- iv. Quarter 4: Concept IDP & Budget presented and communication of deadlines for comments on these documents.
- c. At each of these engagements an opportunity is given to all present to ask questions or raise issues that they experience with service delivery from all spheres of government and not only the local municipality.

### Subject Specific Participation Opportunities

Subject specific participation is opportunities where the public can influence or be involved in the development of various documents of sorts. Many times these opportunities are not dealt with by the organising of a meeting and inviting people to a venue, but mostly when documentation have been advertised for public comment. These range from changes to the Spatial Development Framework, policies, by-laws, etc.

It can also include formal meetings, but this is mostly where detailed technical information about a specific process or subject needs to be explained to the public in order for them to give proper input to the process.

### Ward Committees Participation and Overview of Broader Public Inputs.

During the 2012/13 financial year the Hessequa Municipality initiated a process of including the ward committees in the prioritisation of community inputs to the budget. All inputs were received for the 2013/14 budget and IDP Review by mid November 2012. All these inputs where included then in the assembly of the concept budget process for quantifying by the senior managers together with all the departmental inputs to the budget. At the same time all inputs was listed and sorted by ward by the IDP Unit. Each ward committee received a list of inputs relating to their ward and were tasked to prioritise the public inputs over a timeframe of three years with 5 priorities for each year.

The following list of inputs were received. You will note that some inputs where transversal to all wards and was duplicated then for consideration by each ward committee.

#	Ref. #	Public Input	Ward
1	1	Werkbestek-opname te Preekstoel vir meer effektiewe begrotingsamestelling	1
2	1	Permanente Opsigterspos vir Ellensrust karavaanpark	1
3	1	Oop grond by Lappiesbaai Oord te verbeter deur die daarstelling van 'n geseelde gruislaag	1
4	7	Vakansieprogramme in Stilbaai tydens Desember Vakansie	1
5	7	Voldoende Begroting vir Ellensrust Kamp - Verfraaiing en Opknapping	1
6	7	Begroting vir Stilbaai Gemeenskapsaal - Onderhoud en Herstel - Personeel	1
7	17	Opgradering van Stilbaai Skietbaan	1
8	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	1
9	21	Studiebeurse vir Minder Bevoorregte Kinders	1
10	21	Befondsing vir Kuns & Kultuur Aktiwiteite	1
11	21	Ondersteuning aan Plaaslike Entrepreneurs	1
12	21	Skoonmaak Aksies in alle woongebiede	1

13	22	Kuns en Stokperdjie Ekspo	1
14	27	Feesligte Gedurende Feestyd	1
15	29	Opknapping van geteipoel en omgewing - Gmond	1
16	29	Opknapping van ou vywertjie - Gmond	1
17	29	vervoer van kinders na 'n Hoërskool - Gmond	1
18	29	Publieke vervoer - Gmond	1
19	29	Mediese Versorgingsdienste - Gmond	1
20	29	Toegang tot Staatsdienste - Geboortesertifikate/ID/sterftes/Paspoorte/ens. - Gmond	1
21	29	Instandhouding van bestaande infrastruktuur - Gmond	1
22	34	Befondsing vir Tuin op die Brak	1
23	35	Gouritsmond Bewaringstrust Befonding	1
24	36	Randstene moet dringend aandag kry - Sbaai	1
25	36	Ontwikkeling van die hawegebied - Sbaai	1
26	1	Teer van Doris Straat	1
27	1	Opgadering van Watersuiweringsaanleg	1
28	1	Installering van Randstene - Westekant van Hoofweg Oos	1
29	1	Voorsiening van Stormwater Stelsel - Steadfraylaan	1
30	1	Installering van Randstene - Steadfraylaan	1
31	1	Herseel van Hoofweg Oos	1
32	1	Herseel van Gordon Straat	1
33	1	Opgradering van Lewensreddershuisie te Lappiesbaai	1
34	1	Rekonstruksie van aansluiting na Preekstoelpad en Hoofweg Oos asook Stormwater verleiding	1
35	1	Herseel van paaie in die Ellensrus Karavaanpark	1
36	1	Installering van Randstene in Ellensrust Karavaanpark	1
37	1	Brandpad langs Pauline Bohnen daarstel en onderhoud van die brandpad	1
38	3	Stormwater Gouritsmond	1
39	3	Ingangroete te Melkhoutfontein	1
40	3	Sportfasaliteite Melkhoutfontein	1
41	3	Braaigeriewe Melkhoutfontein	1
42	3	Drooglegging van gedeelte vanaf Erica Singel	1
43	5	Skuiling by Klinieke vir Pasiënte Vervoer	1
44	7	66KV Kraglyn na Stilbaai	1
45	7	Opgradering van Dorpsingang en verfraaiing van Hoofweg in Sakekern	1
46	7	Aanbring van goeie ontspanninggeriewe langs die kuslyn	1
47	7	Opgradering van Sportterrein te Stilbaai	1
48	13	Randstene Hoofweg Oos & Wes	1
49	14	Randstene	1
50	14	Opgradering van Sportterrein	1
51	24	Veiligheidskamerastelsel (CCTV) Riversdal	1
52	29	Addisionele Opgaardam en ook ontkalking sisteem - Gmond	1

53	29	Aansluitings by rioolwerke vir alle huise - Gmond	1
54	29	Teer van alle strate in Bitouville - asook Kusweg - Gmond	1
55	29	Stormwater pyp in kusweg - Gmond	1
56	29	Randstene in heelwat strate - Gouritsmond	1
57	29	Opgradering van Bitouville Sportterrein	1
58	29	Oefenbof vir gholfspelers - Gmond	1
59	29	Reddingstoerusting by die swemstrand - Gmond	1
60	29	Speelpark vir kleuters by die strand - Gmond	1
61	29	Opgradering van speelpark toerusting in Bitouville	1
62	29	Opknapping van Tennisbaan - G/mond	1
63	29	Opknapping van dak en betonbane by jukskeiklub - G/mond	1
64	29	Braai geriewe vir dagbesoekers weg van die geteipoel - Gmond	1
65	29	Skoonmaakgeriewe vir bote ens. by die rivier - Gmond	1
66	29	'n sterk bewegings sensitiewe lig by die slip en jetty - Gmond	1
67	36	Opgradering van strate en sypadjies - Sbaai	1
68	36	Plavei van Wegestraat - Sbaai	1
69	36	Meer brandstoke in die gebied - Sbaai	1
70	36	Bepanning vir senior burgers en gestremde persone se mobiliteit in dorp - Sbaai	1
71	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	2
72	21	Studiebeurse vir Minder Bevoorregte Kinders	2
73	21	Befondsing vir Kuns & Kultuur Aktiwiteite	2
74	21	Ondersteuning aan Plaaslike Entrepreneurs	2
75	21	Skoonmaak Aksies in alle woongebiede	2
76	32	Befondsing vir herdruk van Albertinia Boek - 200 Boeke	2
77	32	Befondsing vir herdruk van Albertinia Boek - 100 Boeke	2
78	35	Befondsing vir Albertinia Museum	2
79	5	Skuiling by Klinieke vir Pasiënte Vervoer	2
80	24	Veiligheidskamerastelsel (CCTV) Riversdal	2
81	39	Opgradering van Rioolstelsel - Koppeling van Uitbreiding 2 aan rioolstelsel	2
82	7	Begroting vir Stilbaai Gemeenskapsaal - Onderhoud en Herstel - Personeel	3
83	12	Uitbreiding van die Sakekern in Stilbaai - moet "vetter" gemaak word.	3
84	12	Minder stopstrate in Stilbaai	3
85	13	Verfraai van Morrispunt & Lapskuit tesame met bestaande verbeterings wat deur privaat instansies gedoen word	3
86	13	Openbare tuine te verander na arbeidslose tuine	3
87	15	Uitpomp van toilette Vermaaklikheid	3
88	15	Skoonmaak van Watertenke op gereelde basis - Vermaaklikheid	3
89	15	Kwartaalike Mini-Jamborees in Vermaaklikheid	3
90	15	Ondersteuning vir die skep van 'n Buurtwag - Vermaaklikheid	3

91	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	3
92	21	Studiebeurse vir Minder Bevoorregte Kinders	3
93	21	Befondsing vir Kuns & Kultuur Aktiwiteite	3
94	21	Ondersteuning aan Plaaslike Entrepreneurs	3
95	21	Skoonmaak Aksies in alle woongebiede	3
96	27	Feesligte Gedurende Feestyd	3
97	33	Voorafbetaalde Kragmeters vir Inwoners langer as 9 maande per jaar	3
98	36	Randstene moet dringend aandag kry	3
99	36	Ontwikkeling van die hawegebied	3
100	5	Skuiling by Klinieke vir Pasiënte Vervoer	3
101	7	Fietsrybaan langs Hoofweg Wes	3
102	7	66KV Kraglyn na Stilbaai	3
103	7	Opgradering van Dorpsingang en verfraaiing van Hoofweg in Sakekern	3
104	7	Aanbring van goeie ontspanninggeriewe langs die kuslyn	3
105	7	Opgradering van Sportterrein te Stilbaai	3
106	8	Randstene vir Jongensfontein	3
107	12	Makliker Toegang tot Melkhoutkruin, Platbos, Hoogte, Hawegebied, Little England en Stilbaai Oos vanuit Hoofweg	3
108	12	Sirkels by By bogenoemde Toegangsroetes	3
109	12	Sluit van kleiner ingange vanaf woonbuurte na Hoofweg Wes indien nodig	3
110	12	Versekerde bydrae tot Provinsiale Paaie se onderhoud vanuit Hessequa Begroting	3
111	13	Randstene Hoofweg Oos & Wes	3
112	13	Sportterrein se opgradering	3
113	14	Omheining van Riversal meentgrond tussen Begraafplaas en Oakdale se Buiteplaas - Met insette van Landbouers - Georganiseerde Lanbou in Wyk 3 se Versoek	3
114	15	Waterverkooppunt by Biblioteek - Vermaaklikheid	3
115	15	Opsit van Son-Panele vir Waterverwarming - Vermaaklikheid	3
116	15	Jeugsentrum vir Vermaaklikheid - Opgradering van Saal met ontspanningsfasaliteite	3
117	24	Veiligheidskamerastelsel (CCTV) Riversdal	3
118	26	Opgradering van 2 Tennisbane te Stilbaai	3
119	30	Opgradering van die Jukskeibane te Jongensfontein	3
120	36	Opgradering van strate en sydjies	3

12 1	36	Plavei van Wegestraat	3
12 2	36	Meer brandstrok in die gebied	3
12 3	36	Beplanning vir senior burgers en gestremde persone se mobiliteit in dorp	3
12 4	6	Skoonmaak Aksies - Dien as Werkskepping	4
12 5	6	Daarstelling van meer kantoorpersoneel	4
12 6	6	Straatligte Onderhoud en Donkerkolle plek-plek	4
12 7	6	Beskikbaarstelling van Beskikbare kampe vir groentetuine en vrugteboorde	4
12 8	6	Hergruis van Strate	4
12 9	6	Skoonmaak Aksies - En Vullisoorlaaistase - Witsand	4
13 0	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	4
13 1	21	Studiebeurse vir Minder Bevoorregte Kinders	4
13 2	21	Befondsing vir Kuns & Kultuur Aktiwiteite	4
13 3	21	Ondersteuning aan Plaaslike Entrepreneurs	4
13 4	21	Skoonmaak Aksies in alle woongebiede	4
13 5	37	Befondsing vir Lower Breederiver Conservancy	4
13 6	5	Skuiling by Klinieke vir Pasiënte Vervoer	4
13 7	6	Parkeerarea by Munisipale Gebou	4
13 8	6	Uitbrei van Gemeenskapsaal asook die Kombuis	4
13 9	6	Ontwikkeling van Besigheidserwe en Nooderwe asook die beskikbaarstelling van Woonerwe	4
14 0	6	Opgradering van Sportterrein en Gebou	4
14 1	6	Oprigting van Jeug Fasiliteite en Jeugsentrum	4
14 2	6	Plavei van Strate	4
14 3	6	Bou van Randstene	4
14 4	6	Lê van Stormwater pype	4
14 5	6	Skep van erwe vir Lae-koste Behuising	4
14 6	6	Herseel van Strate - Witsand	4
14 7	6	Oppgradering van Wes en middelkamp	4
14 8	6	Aangbring van Wheelie-Wagon Biblioteek	4

14 9	6	Skep enkel wooneenhede - Witsand	4
15 0	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	5
15 1	21	Studiebeurse vir Minder Bevoorregte Kinders	5
15 2	21	Befondsing vir Kuns & Kultuur Aktiwiteite	5
15 3	21	Ondersteuning aan Plaaslike Entrepreneurs	5
15 4	21	Skoonmaak Aksies in alle woongebiede	5
15 5	23	Die oordrag van erf 1410 vanaf Provinsie	5
15 6	23	Erf langs AGS Kerk in Young Sirkel om gehersoneer te word vir gebruik vir Senior en Gestremde persone as Behuising	5
15 7	23	Aanbring van trappe en reëlings by 14 huise in Robertsweg	5
15 8	23	Oplei van interns in Rioolwerke en Waterwerke	5
15 9	23	Bevestiging van herwinningsprojekte saam met bewusmakingsveldtog	5
16 0	23	Die skep van werk deur middel van herwinningsprojekte	5
16 1	23	Die biblioteke op Heidelberg moet nogsteeds amalgameer	5
16 2	23	Akkommodasie vir die Senior Burger Klub	5
16 3	23	Befonds ABET ter ondersteuning van geletterdheidsprogramme in die Diepkloof Jeugsentrum	5
16 4	23	Befondsing vir M.I.V./Vigs projekte	5
16 5	23	Befonds Kultuur Organisasies soos Drama groepe en Kersfeeskore	5
16 6	23	Befonds die jaarlike Hessequa Sportdag	5
16 7	23	Befonds Sportorganisasies, Sopkombuise, gemeenskapstuine	5
16 8	23	Befonds Toerisme Projekte om PDI's kompetender te maak in die Hoofstroom Toerisme	5
16 9	23	R20 000 projekte om Entrepreneurs in die tweede ekonomie te ondersteun	5
17 0	23	Befonds Proe-bietjie Kunstefees	5
17 1	23	Befonds Wyksgebaseerde Ekonomiese Projekte	5
17 2	23	Verhoog Deernishulp na R4000	5
17 3	23	Tendervoorwaardes moet aangepas word om voorheenbenadeelde kontrakteurs beter te akkommodeer	5
17 4	23	Laer tariewe vir verdienstelike Organisasies by ons sale	5
17 5	23	Verlaag swembad tariewe	5
17 6	23	Alle vakante poste moet gevul word en 500 tydelike aanstellings moet gedoen word	5

17 7	23	Soek meer werkskeppingsprojekte om te dien as ekonomiese inspuiting	5
17 8	23	Skoonmaak Aksies moet in spanne plaasvind om meer mense te akkommodeer	5
17 9	23	Ondersteuning moet gegee word aan Entrepreneur en SMME en klein besighede	5
18 0	23	Verandering van Duivenhoks Biblioteek na Doris Cyster - eerste gekwalifiseerde Bibliotekaris	5
18 1	5	Skuling by Klinieke vir Pasiene Vervoer	5
18 2	23	Stel grond beskikbaar vir ligte nywerhede	5
18 3	23	Stel grond beskikbaar vir 150 opkomende boere oor die volgende 3 jaar	5
18 4	23	Identifiseer moontlike terrein vir "n truck stop	5
18 5	23	Identifiseer grond vir die sogenaamde Oosbegraafplaas	5
18 6	23	Ondersoek moontlikheid vir die vestiging van besighede in die sogenaamde Oos-Dorp	5
18 7	23	Behuising - voltooi die lae-koste behuisingsprojek - 670 eenhede	5
18 8	23	Brei lae-koste behuising uit na 500 eenhede per jaar vir die volgende 3 jaar	5
18 9	23	Voorsien grond vir GAP Housing - 300 eenhede	5
19 0	23	Voorsoen vir 300 nood-erwe om behuisingswaglys druk af te haal	5
19 1	23	Stel 150 residensiele erwe beskikbaar vir privaat kopers	5
19 2	23	Aanbring van plafonne in die ou sub-ekonomiese skema huise	5
19 3	23	Aanbring van toilette by ou sub-ekonomiese huise	5
19 4	23	Aankoop van grond vir behuising om gemeenskappe te integreer by Buitekantstraat en Middleton Straat	5
19 5	23	Huureenhede in die vorm van woonstelle 150 - 200 enhede	5
19 6	23	Uitbreiding van Rioollyn in Middedorp en Skoolkop	5
19 7	23	Aanbring van toilette in Joe Slovo Park waar mense nie toilette het nie	5
19 8	23	Voorsiening van toilette in informele areas	5
19 9	23	Voorsien voorafbetaalde meter aan alle deernis gevalle	5
20 0	23	Voorsien koeponkragmeters aan alle deernis gevalle en informele huise	5
20 1	23	Elektrifisering van toekomstige behuisingsprojekte	5
20 2	23	Spreiligte by openbare oopruimte vir beveiliging	5
20 3	23	Plavei van strate: Hartnick, Pretorius singel, Nelson Mandela Straat, Kona Laan	5
20 4	23	Plavei verbinding straatjie tussen Hoogstraat en Burnes Straat	5

20 5	23	Teer of plavei van Steggies in die nuwe blikksdorp woonbuurt	5
20 6	23	Teer of Plavei van strate in nuwe Diepkloof Uitbreiding	5
20 7	23	Herbou van Robertsweg en Burnes Straat	5
20 8	23	Opgradering van Leiwater slote - Haig en Burnes Straat	5
20 9	23	Herseel van alle lane in Heidelberg, Disa, Protea, Denne en Nerina laan	5
21 0	23	Lamoela Straat behoort opgradeer te word	5
21 1	23	Aanbring van spoedwalle in Hoogstraat, barlowlaan en Eikeweg	5
21 2	23	Groen oopruimtes moet in gemeenskapsvriendelike parke omskep word	5
21 3	23	Omhein die groen ruimte op die hoek van geldenhuysweg en Haigstraat	5
21 4	23	Omhein die Diepkloof Jeugsentrum	5
21 5	23	Hernuwing van ons woonbuurte deur middel van Naamborde	5
21 6	23	Meer speelparke moet aangebring word om die druk te verminder op huidige	5
21 7	23	Bou van 'n Thusong Sentrum	5
21 8	23	Vergroot die Kindersorg geboue om verdere programme te akkommodeer	5
21 9	23	Brei EPWP projekte na Heidelberg toe ook uit.	5
22 0	23	Bou van 'n Teater op Heidelberg - Groot ekonomiese inspuiting kan wees	5
22 1	23	Befonds Mure van Herinnering	5
22 2	23	Opgradering van Duivenhoks Gemeenskapsaal	5
22 3	23	Opgradering van Sportterrein om voorsiening te maak vir verskillende sportkodes	5
22 4	23	Plaveiselprojekte moet arbeidsintensief wees	5
22 5	23	Verskaffing van Watertenke aan Plaaswerkers op plase	5
22 6	24	Veiligheidskamerastelsel (CCTV) Heidelberg	5
22 7	16	Skoonmaak aksies in wyk	6
22 8	16	Geïntegreerde Afval beplanning & bestuursplan	6
22 9	16	Ondersoek alternatiewe energiebronne	6
23 0	16	Skoonmaak van leë erwe in die wyk	6
23 1	16	Befondsing vir Entrepreneur en Kleinsake	6
23 2	16	Uitroei van indringer plante langs Goukou Rivier	6
23 3	16	Meer finansiële ondersteuning vir sokkombuise	6

3			
23 4	16	Opleiding vir besigheidsplanne en befondsing daarvan	6
23 5	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	6
23 6	21	Herseel van Strate	6
23 7	21	Studiebeurse vir Minder Bevoorregte Kinders	6
23 8	21	Sport Ontwikkeling - Riversdal Krieketklub, Blues Netbal Klub & Valencia Krieketklub	6
23 9	21	Befondsing vir Kuns & Kultuur Aktiwiteite	6
24 0	21	Ondersteuning aan Plaaslike Entrepreneurs	6
24 1	21	Skoonmaak Aksies in alle woongebiede	6
24 2	31	Befondsing vir DROOM/Mosaiek Werkswinkel vir gestremde persone - Kersele	6
24 3	2	Sypadjies rondom Huis Ou Meule Plavei - Baie Ongelyk	6
24 4	11	Opgradering van Burgersentrum Kombuis & badkamer fasaliteite agter verhoog, en voorportaal	6
24 5	16	Plavei van alle oorblywende gruis strate	6
24 6	16	Aanbring van spoedwalle in alle strate	6
24 7	16	Opgradering van Amfiteater	6
24 8	16	Installering van voorafbetaalde watermeters	6
24 9	16	Herseel en opgradering van strate	6
25 0	16	aanbring van randstene - gedeelte van Barry Straat	6
25 1	16	Aanbring van sement bankies in Wyk 6	6
25 2	16	Opgradering van ontspanning en sportsgeriewe	6
25 3	16	Teer van Landelike pad na Palmietrivier	6
25 4	16	Openbare Vervoer vir landelike Inwoners	6
25 5	16	Gemeenskapsaal vir landelike gemeenskap	6
25 6	16	Opgradering van rioollyn vanaf pompstasie 1 tot by 2	6
25 7	18	Julius Gordon Africana Sentrum Projek	6
25 8	19	Opgradering van Sypadjies vir rolstoeltoegang sodat mense tussen Langstraat 25 - 46 nie in die straat hoef te ry nie - Klein kinders ook teenwoordig in die straat - Vinnige voertuie 'n probleem - Verkeerspoed vertraging benodig	6

25 9	19	Opgradering van Sypadjies vir rolstoeltoegang sodat mense tussen Langstraat 25 - 46 nie in die straat hoef te ry nie - Klein kinders ook teenwoordig in die straat - Vinnige voertuie 'n probleem - Verkeerspoed vertraging benodig	6
26 0	21	Opgradering van Riverville Sportterrein	6
26 1	24	Veiligheidskamerastelsel (CCTV) Riversdal	6
26 2	10	Herstel en Onderhoud by Tennis Klubhuis - Rommel Verwyder, Herstel, Verf	7
26 3	11	Skoonmaakaksies in alle wyke - R50 000 per wyk	7
26 4	11	Vergoeding Sportforum operasionele kostes tot Skype Stelsel installeer is	7
26 5	11	Strate Herseel in wyk 7 volgens Mnr Wesso se plan	7
26 6	11	Openbare busvervoerstelsel vir die landelike inwoners	7
26 7	11	Befondsing van die landelike rugbyliga om Landelike Ontwikkeling aan te help	7
26 8	11	Voltydse sopkombuis vir Kwanokuthula	7
26 9	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	7
27 0	21	Studiebeurse vir Minder Bevoorregte Kinders	7
27 1	21	Befondsing vir Kuns & Kultuur Aktiwiteite	7
27 2	21	Ondersteuning aan Plaaslike Entrepreneurs	7
27 3	21	Skoonmaak Aksies in alle woongebiede	7
27 4	2	Sypadjies rondom Huis Ou Meule Plavei - Baie Ongelyk	7
27 5	10	Omhein van Tennis Klubhuis	7
27 6	11	Infrastruktuur verbeterings by Transnet gebou te Bekkerstraat 2	7
27 7	11	Hergruis van Garcia se grondstrate - Klein gedeelte	7
27 8	11	Opgradering van Burgersentrum Kombuis & badkamer fasaliteite agter verhoog, en voorportaal	7
27 9	11	Installering van Skype stelsel om kostes te verminder - Kommunikasie & Vergaderings	7
28 0	11	Opgradering van Tuine en Plaveisel rondom Burgersentrum	7
28 1	11	Uitwijkdam terugplaas op begroting	7
28 2	11	Joubertstraat se rioolprobleem - Uitbreiding na Barnes en Rouxstraat - Opgradering van Stelsel	7
28 3	11	Koeponstelsel vir elektrisiteitsverbruik by Muurbalbaar	7
28 4	11	Voetgang pad - Kwanokuthula na N2 - Plavei	7
28 5	11	Opgradering van Speelparkie oorkant Takkieskloof	7

28 6	11	Rolstoel vriendelike oorgange by spooroorgange (3) in wyk 7	7
28 7	11	Huidige watermeters opgradering na beter en betroubare meters	7
28 8	11	Grootmaat watermeters waar nog kort	7
28 9	11	Opgradering van elektrisiteitstoevoer te sekere dele in Kwanokuthula om alle onwettige konneksies hok te slaan en wettiglik te konnekteer	7
29 0	14	Omheining van Riversal meentgrond tussen Begraafplaas en Oakdale se Buiteplaas - Met insette van Landbouers	7
29 1	18	Julius Gordon Africana Sentrum Projek	7
29 2	19	Opgradering van Sypadjies vir rolstoeltoegang sodat mense tussen Langstraat 25 - 46 nie in die straat hoef te ry nie - Klein kinders ook teenwoordig in die straat - Vinnige voertuie 'n probleem - Verkeerspoed vertraging benodig	7
29 3	24	Veiligheidskamerastelsel (CCTV) Riversdal	7
29 4	25	Oprigting van speelpark te Oakdale Werkersgemeenskap	7
29 5	20	Frokkies vir Laerskoolatletiekkode - Skole beskik nie oor fondse om gepaste klerasie aan kinders te verskaf nie	8
29 6	21	Herseel van Strate	8
29 7	21	Studiebeurse vir Minder Bevoorregte Kinders	8
29 8	21	Sport Ontwikkeling - Riversdal Krieketklub, Blues Netbal Klub & Valencia Krieketklub	8
29 9	21	Befondsing vir Kuns & Kultuur Aktiwiteite	8
30 0	21	Ondersteuning aan Plaaslike Entrepreneurs	8
30 1	21	Skoonmaak Aksies in alle woongebiede	8
30 2	11	Opgradering van Burgersentrum Kombuis & badkamer fasaliteite agter verhoog, en voorportaal	8
30 3	18	Julius Gordon Africana Sentrum Projek	8
30 4	21	Opgradering van trappe en reëlings in Aloeridge en Morestond	8
30 5	24	Veiligheidskamerastelsel (CCTV) Riversdal	8

## Communications Strategy

The primary function of any municipality is to serve the inhabitants of its area of jurisdiction. A municipality owes its existence to the needs of the community, and not the other way round. To be successful it must therefore be committed to providing the best possible service to its customers, i.e. the inhabitants of its area of jurisdiction.

Research has, however, shown that people generally know little about Councils or municipalities and what they do. The less people know about an organisation, the less favourably disposed they are towards it. Local residents often see Councils as 'bureaucratic' rather than 'hard working' and as 'closed' rather than 'open and honest'.

Municipalities are furthermore tax-levying, law-enforcing institutions. In South Africa they generally have a monopoly on the supply of utilities such as electricity and water to the majority of their citizens. As a result there is a natural tendency of scepticism towards municipalities.

To ensure a positive operating environment, the modern municipality needs to build and maintain a favourable image as well as positive relationships and partnerships with all its stakeholders, externally as well as internally. It must ensure that the stakeholders understand how it works and what its responsibilities and capabilities are. The municipality must also ensure that it understands what the needs and the priorities of the stakeholders are.

To convert negative or neutral perceptions to positive perceptions, it is necessary for the municipality to be transparent and proactive in its interaction with the people it is supposed to serve.

Fundamental to this is communication, which is a two-way process that involves the continuous sharing of information with appropriate audiences on a timely basis and by the most effective means.

A communication plan provides a framework to ensure that the abovementioned interaction between the municipality and its stakeholders is executed in a planned, controlled and purposeful manner.

Public participation and public relations activities, community liaison, employee communication, media relations and campaigns, institutional advertising and customer care are all elements of the overall communication process. Effective and sustained communication is vital for the success of processes such as the IDP and transformation, the execution of municipal projects and the implementation and enforcement of municipal by-laws, etcetera.

Without a communication plan there is a risk that the Municipality will react rather than lead the communication process. Ad hoc, reactive communication often devalues the corporate and community reputation of Council projects, programmes and services. The quality and competence of communication is often the difference between the successful or the disappointing delivery of a Council initiative.

It should furthermore be noted that the Constitution of South Africa as well as the Municipal Systems Act, No 32 of 2000 places Municipalities under certain obligations with regard to the community.

Section 152 (1) (e) of the Constitution states that an objective of local government is "to encourage the involvement of communities and community organisations in the matters of local government." Section 195 (1)(f) states that "transparency must be fostered by providing the public with timely, accessible and accurate information." Also, Section 160 (7) states that: "A municipal council must conduct its business in an open manner."

The Municipal Systems Act contains various clauses dealing with community relationships and communication, e.g. Section 6 which states inter alia that "the administration of a municipality must establish clear relationships, and facilitate co-operation between it and the local community."

The Promotion of Access to Information Act, No 2 Of 2002, is another Act which influences the communication responsibilities of a Municipality. In effect, it obliges organisations, including Municipalities, to be totally open in their affairs.

**This communication plan sets out the Hessequa Municipality's approach to communications and provides an overall framework and guidelines for managing and coordinating the communication processes between the Hessequa Municipality and all its stakeholders. It also includes action plans.**

## OBJECTIVES

The communication plan has the following objectives:

- To endorse communication as a priority issue for the Hessequa Municipality, and to encourage good communication practices with internal as well as external stakeholders.
- To support the aims and objectives of Council's corporate plans, vision, mission and values.
- To establish that good communication is everybody's responsibility, from Councillors and senior management, to front-line and support staff.
- Through credible, courteous, effective, consistent, relevant and pro-active communication create a positive operating climate and gain the confidence and support of the town's citizens, investors and visitors.
- To project the Municipality as a service-orientated organisation and foster an internal culture of service excellence.
- To keep the citizens of Hessequa informed of the services and the functions provided by the Municipality so that they may influence the quality, nature and range of services available to them.
- To convey Council decisions effectively and timeously to the inhabitants of Hessequa.
- To overcome public apathy, develop a culture of community participation and provide suitable and useful mechanisms, processes and procedures for these purposes as required by the Municipal Systems Act, No 32 of 2000

- To establish and maintain positive and constructive relations with the media.
- Establish and maintain effective internal communication channels and practices to ensure that staff is properly informed on the affairs of the municipality.
- Build and maintain employee morale and loyalty.
- Provide an action plan for improvement of the Municipality's communication systems and practices.

## SITUATION ANALYSIS

The Hessequa Municipality is a new entity that came into existence at the end of 2000 when the previous municipal structures of Riversdale Stilbaai Albertinia Gouritsmond Slangrivier Witsand Heidelberg were amalgamated to establish the current Hessequa Municipality.

The municipal area covers 5400 sq. km. It includes a large farming community and a number of relatively underdeveloped rural settlements. The new entity has inherited service as well as infrastructural backlogs from the previous structures, particularly in the rural areas. The large municipal area complicates service delivery, communication and public participation activities.

A substantial part of Hessequa population is poor, which impacts on the Municipality's income base. This, together with the restrictions imposed by the authorities on rates increases, makes it difficult to address backlogs and to improve or maintain infrastructure at the pace people expect. The situation results in some resentment towards the Municipality by both those who feel that they are historically neglected and those who feel that their needs are not met in proportion to their contribution to the municipal coffers.

Although several representative organisations exist in the Hessequa municipal area, a large part of the community is not affiliated to any of the existing structures. The opportunities for community liaison through organised structures are therefore limited.

The greater Hessequa has a diverse population of approximately 45 000 people and the main languages spoken are Afrikaans, English and Xhosa.

The population varies from illiterate and unskilled to highly qualified and skilled. While the town has a relatively fast-growing economy, poverty is rife in certain areas. The main industries in the municipal area are agriculture, fishing and tourism.

Tourism, in particular, is a fast-growing sector of the economy as the town is well-suited to becoming a prime tourist destination because of its location on the world-famous Garden Route, its particular scenic beauty, biodiversity, mild climate and rich cultural history.

Tourism development is of vital importance to the local economy because of the uncertainty of the agricultural industry and declining fish resources. Tourism development has therefore been identified as a priority by Council.

Tourism marketing, and to an extent, therefore, promotion of the town's overall image, is done by the Tourism Bureau. This appears to be working well.

While there are hot spots, Hessequa has a relatively low crime rate and its inhabitants generally live in harmony. It also has a stable labour environment.

The Municipality's external communication up till now generally tended to be ad hoc and one-dimensional, e.g. related to projects or processes, such as the IDP and SDF, and lacks clear goals.

News releases on Municipal announcements, achievements and projects are issued regularly but opportunities are still being missed due to inadequate practical-mindedness of municipal management towards communication.

The public's statutory right to attend all meetings of Council and its committees is fundamental to Council's public participation duties and transparency in general. Although meeting dates and an invitation to attend are included in the Municipality's newsletter only the dates of the full quarterly Council meetings are published in the Forum.

The Municipality has a customer care function in place, but feedback to the customer care managers on matters they report as well as follow-up on these issues is often slow. This neutralises the concept of "customer care" to some extent and also has a negative impact on the credibility of the customer care manager

Internal communication, particularly employee communication, is mainly ad hoc and limited to notifications on conditions of employment, disciplinary or administrative matters. It is mostly top-down.

An esprit de corps seems to be lacking amongst employees, which could be due to the after-effects of the abovementioned amalgamation process, the drawn-out process to finalise and fill the new entity's structures, the lack of suitable employee communication in this regard and a hierarchical management structure that historically is not conducive to effective employee participation and initiative.

A positive team spirit and loyalty are important for the successful establishment and maintenance of a service culture. Care should be taken that the Municipality's hierarchical management system does not inhibit two-way communication and initiative by its employees.

Council has adopted a clear Vision, Mission and Values but they will be of little value if they are not communicated properly to external as well as the internal stakeholders of the Municipality, or if Councillors and municipal personnel do not live up to them.

It is highly likely that the research results referred to above (people generally know little about Councils or municipalities and what they do) apply to the Municipality of Hessequa as well. Proper communication planning and attention thereto is therefore important. It is also long overdue.

## SWOT ANALYSIS

The following is an analysis of the Municipality's strengths and weakness, potential threats it faces and available opportunities:

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
1. Dedicated management team 2. Sound financial state 3. Organisational stability 4. Low crime rate 5. Positive economic environment 6. Experienced management and staff 7. Good municipal infrastructure 8. Good planning mechanisms in place, e.g. IDP 9. Clean slate 10. Clear vision, mission and values.	1. Low management profile 2. Bureaucratic image 3. Esprit de corps lacking 4. Lack of service culture 5. Hierarchical management structure 6. Unstructured communication 7. Lack of skills in certain areas 8. Personnel shortages 9. Rural infrastructural backlogs 10. Vast area of jurisdiction 11. Divided communities 12. Financial constraints 13. Inadequate sensitivity towards communication 14. Controversial developments	1. Enhanced image 2. Improved community support and participation 3. Enhanced relationships with stakeholders 4. Culture of service excellence achieved 5. Improved service delivery 6. Greater customer satisfaction 7. Improved employee morale and loyalty 8. Improved operating climate 9. Improved esprit de corps 10. Positive local governance 11. Enhanced credibility	1 Slow local economic development 2. High unemployment 3. Internal labour unrest 4. Loss of skills 5. Lack of skills 6 Budget constraints 7 Lack of transparency 8. Economic decline 9. Increased crime 10. Internal resistance to change 11. Lack of commitment to communication 12. Council/management not actively involved in communication initiatives

	15. Insufficient attention to LED.		
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## STAKEHOLDERS

Stakeholders, also known as audiences, publics or strategic constituencies, are people, individually or in groups, as well as authorities who have a legitimate interest or stake in the Municipality's affairs, conduct or operations.

The Municipality's stakeholders include the following:

INTERNAL	EXTERNAL	
Councillors Personnel Ward Committees Employee organisations Municipal pensioners	Ratepayers / property owners Users of municipal services Voters Political parties Representative community organisations, e.g. ratepayers, residents, civics Local business owners Business organisations Labour organisations Media General public Environmental/conservation groups	Visitors Tourists Suppliers Contractors Property developers Investors Provincial Government & entities National Government & entities Eden District Municipality Local law enforcement authorities

## KEY MESSAGES

The Hessequa Municipality is:

1. A responsible, well-governed and well-managed organisation which manages taxpayers' money as well as Municipal assets responsibly and wisely.
2. A transparent, accessible organisation that keeps the community informed on its affairs as well as services provided by the Municipality.
3. A service-orientated organisation which is committed to providing the best possible service and infrastructure to the community.

4. Sensitive to the needs of the citizens of Hessequa and is committed to obtain their inputs into all matters affecting or of interest to them.
5. Committed to responsible local economic development with the ultimate objective of creating jobs and alleviating poverty.
6. Committed to a clean, healthy and tidy environment.
7. A caring and responsible employer which respects the dignity of each and every employee believes in a well-informed workforce and creates a climate in which employees can grow and develop.

### ACTION PLAN

The action plan aligns the key messages the Municipality wishes to convey to the intended recipients (stakeholders); identifies the methods or tools for this and assigns responsibilities and time scales in this regard.

<b>1 KEY MESSAGE</b>				
<i><b>The Hessequa Municipality is a responsible, well-governed and well-managed organisation which manages taxpayers' money and Municipal assets responsibly and wisely.</b></i>				
<b>STAKEHOLDERS</b>	<b>STRATEGY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>TIMING/STANDARD</b>
1.1 All as per paragraph 5 above.	7.1.1 Publicise Municipal achievements, project progress, budgets and initiatives.	7.1.1 News releases; Advertisements; Web Site; Annual Report; Community Radio; Media Conferences and Interviews.	7.1.1 Head: Communication (Direct)/ Mayor/Municipal Manager/Directors (Supportive).	7.1.1 Media: As and when necessary/ Website: As and when necessary.
1.2 Community organisations, e.g. ratepayers, residents, civics, general	7.1.2 Regional Mayoral/Council feedback or information meetings designed in conjunction	7.1.2 Presentations on Municipal structures, services, policies, etcetera;	7.1.2 Mayor/Municipal Manager / Directors / Head: Communication	7.1.2 Quarterly

public.	with Mayor.	Feedback on issues.		
1.3 Community organisations, e.g. ratepayers, residents, civics; business, environmental and service organisations.	7.1.3 Pre-identified speaking engagements.	7.1.3 Address meetings as guest speakers.	7.1.3 Municipal Manager / Directors.	7.1.3 Minimum four meetings per annum.
<b>2 KEY MESSAGE</b>				
<i>The Hessequa Municipality is a transparent, accessible organisation that keeps the community informed on its affairs as well as services provided by the Municipality.</i>				
<b>STAKEHOLDERS</b>	<b>STRATEGY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>TIMING/STANDARD</b>
2.1 All as per paragraph 5 above.	7.2.1 Publicise Municipal achievements , project progress, budgets and initiatives.	7.2.1 News releases; Advertisements ; Web Site; Annual Report; Community Radio; Media Conferences and Interviews.	7.2.1 Head: Communication (Direct)/Mayor/Municipal Manager/Directors (Supportive).	7.2.1 Media: As and when necessary/ Website: As and when necessary.
2.2 All as per paragraph 5 above.	7.2.2 Encourage public attendance of Council meetings.	7.2.2 Advertise all Mayoral meetings and General Council meetings in media and newsletter.	7.2.2 Head: Communication/ Secretariat.	7.2.2 Monthly.
2.3 Media	7.2.3 Encourage	7.2.3 Invite media to	7.2.3 Head: Communication /	7.2.3 Monthly.

	media publicity of Council affairs.	Council meetings; Mail Council Meeting Agendas and documentation to media; Media briefings.	Mayor/ Municipal Manager/Secretariat.	
2.4 Community organisations, e.g. ratepayers, residents, civics, general public.	7.2.4 Workshops.	7.2.4 Presentations on Municipal structures, services, policies, programmes, participation procedures, etcetera.	7.2.4 Head: Communication / Municipal Manager/Directors (Supportive).	7.2.4 When required
<b>3 KEY MESSAGE</b>				
<i>The Hessequa Municipality is a service-orientated organisation which is committed to providing the best possible service and infrastructure to the community.</i>				
<b>STAKEHOLDERS</b>	<b>STRATEGY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>TIMING/STANDARD</b>
3.1 All as per paragraph 5 above.	7.3.1 Respond to all queries and complaints promptly and within set period of time.	7.3.1 Introduce Customer Care Standard and Complaints Handling Procedure; Make public and staff aware of procedure.	7.3.1 Directors	7.3.1 On-going; feedback to complainant / enquirer within 10 working days.
3.2 All as per paragraph 5 above.	7.3.2 Front-line staff responds professionally to all calls and refer	7.3.2 Train front-line staff.	7.3.2 Directors	7.3.2 On-going.

	enquiries to right person all the time.			
3.3 All as per paragraph 5 above.	7.3.3 Publicise Municipal service delivery achievements and practices.	7.3.3 Issue news releases; Publish in newsletter and on website.	7.3.3 Head: Communication	7.3.3 As and when possible.
3.4 All as per paragraph 5 above	7.3.4 Market customer care function	7.3.4 Publish in newsletter and on website.	7.3.4 Head: Communication	7.3.4 As and when possible.
3.5 All as per paragraph 5 above	7.3.5 Maintain effective public enquiry / complaint register system	7.3.5 Implement Eden DM-sponsored customer care computer program	7.3.5 Head: Communication.	7.3.5 On-going.
<b>4 KEY MESSAGE</b>				
<i>The Hessequa Municipality is sensitive to the diversity and needs of the citizens of Hessequa and is committed to obtaining their inputs into all matters affecting or of interest to them.</i>				
<b>STAKEHOLDER S</b>	<b>STRATEGY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>TIMING/STANDARD</b>
4.1 All as per paragraph 5 above.	7.4.1 Increase public awareness of IDP, SDF, budget and other municipal processes.	7.4.1 Publicise / advertise process. - Direct mailing. - Public sessions on Operational Budget	7.4.1 Head: Communication / Head: Change Management/ <i>Directors</i> - Head: Change Management. - Head: Communication / Director Finance	7.4.1 As and when required. - Budget: Prior to drawing up budget (August)/ feedback (combine with Community Forums)
4.2 All as per paragraph 5	7.4.2 Educate public on right	7.4.2 Media articles /	7.4.2 Head: Communication	7.4.2 Included in community forum

above	to participate in above processes.	municipal newsletter / Presentations at community forums (see 7.1.2 / 7.2.4 above)/ Workshops.	/Municipal Manager/Directors.	program / workshop program as in 7.2.4 above.
4.3 All as per paragraph 5 above.	7.4.3 Respond to all queries and complaints promptly and within set period of time.	7.4.3 Train and continuously monitor performance of front-line staff.	7.4.3 Directorate.	7.4.3 On-going.

#### 5 KEY MESSAGE

***The Hessequa Municipality is committed to responsible local economic development with the ultimate objective of creating jobs and alleviating poverty.***

STAKEHOLDERS	STRATEGY	METHOD	RESPONSIBILITY	TIMING/STANDARD
5.1 All as per paragraph 5 above.	5.1 Increase public awareness of Municipality's LED initiatives.	5.1 - News releases. - Web Site. - Annual Report. - Community Radio. - Media Conferences and Interviews. - Community Presentations. - Workshops.	5.1 Head: LED / Head: Communication.	5.1 On-going.

5.2 All as per paragraph 5 above.	5.2 Invite public inputs into Municipal developments	5.2 Publicise developments and invite inputs. - Targeted public meetings.	5.2 Head: LED/Head: Communication	5.2 As and when required.
<b>7.6 KEY MESSAGE</b>				
<i>The Hessequa Municipality is committed to a clean, healthy environment.</i>				
<b>STAKEHOLDER S</b>	<b>STRATEGY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>TIMING/STANDARD</b>
6.1 All as per paragraph 5 above.	6.1 Increase public awareness of Municipal environmental care initiatives.	6.1 News releases, media conferences and interviews. - Web Site. - Annual Report. - Community Radio. - Community presentations. - Workshops.	6.1 Director/Head: Communication	6.1 On-going.
6.2 All as per paragraph 5 above.	6.2 Increase public awareness of municipal health programs and initiatives.	6.2 News releases, media conferences and interviews. - Web Site. - Annual Report. - Community Radio. - Presentations.	6.2 Head: Communication	6.2 On-going.

		- Workshops.		
<b>7 KEY MESSAGE</b>				
<i>The Hessequa Municipality is a caring and responsible employer which respects the dignity of each and every employee, believes in a well-informed workforce and creates a climate in which employees can grow and develop.</i>				
<b>STAKEHOLDERS</b>	<b>STRATEGY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>TIMING/STANDARD</b>
7.1 Employees.	7.1 Keep employees informed on Council / Municipal issues, policies and projects.	7.1 Regular staff circulars;	7.1 Head: Communication / Directorate.	7.1 Monthly / on-going.
7.2 Employees.	7.2 Create opportunities for two-way communication between employees / senior management.	7.2 Quarterly round-table discussions for departmental representatives.	7.2 Head: Communication/ Directorate.	7.2 Monthly / on-going.
7.3 Employees.	7.3 Encourage employees to suggest process and service delivery improvements.	7.3 Suggestion boxes. Incentives.	7.3 Head: Communication / Directorate	7.3 Monthly / on-going.
7.4 Employees.	7.4 Encourage service excellence, initiative, and	7.4 Introduce monthly recognition reward system (non-intrinsic	7.4. Head: Communication / Directorate.	7.4 Monthly / on-going.

	etcetera.	value).		
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## **FOCUS AREA 3: MAINTENANCE AND DEVELOPMENT OF ALL SERVICES**

### *Streets, Storm water, Parks & Resorts*

*This department is responsible for the management, maintenance and upgrading of streets, storm water, parks and resorts within the Hessequa municipal area. The towns where these services are rendered include Riversdale (administrative centre), Heidelberg, Albertinia, Stillbay, Jongensfontein, Melkhoutfontein, Gouritsmond, Slangrivier and Witsand. Please note that this section provides a summary of findings of the following sectoral Plans which forms an integral part of the IDP:*

- 1. Hessequa Integrated Transport Plan of 2010*
- 2. Eden Integrated Transport Plan of 2010*
- 3. Hessequa Pavement Management System of 2009*
- 4. Hessequa Storm water Management System of 2007*
- 5. Hessequa Roads and Transport Master Plan of 2009-10*
- 6. Hessequa Building Maintenance Management Plan of 2010*

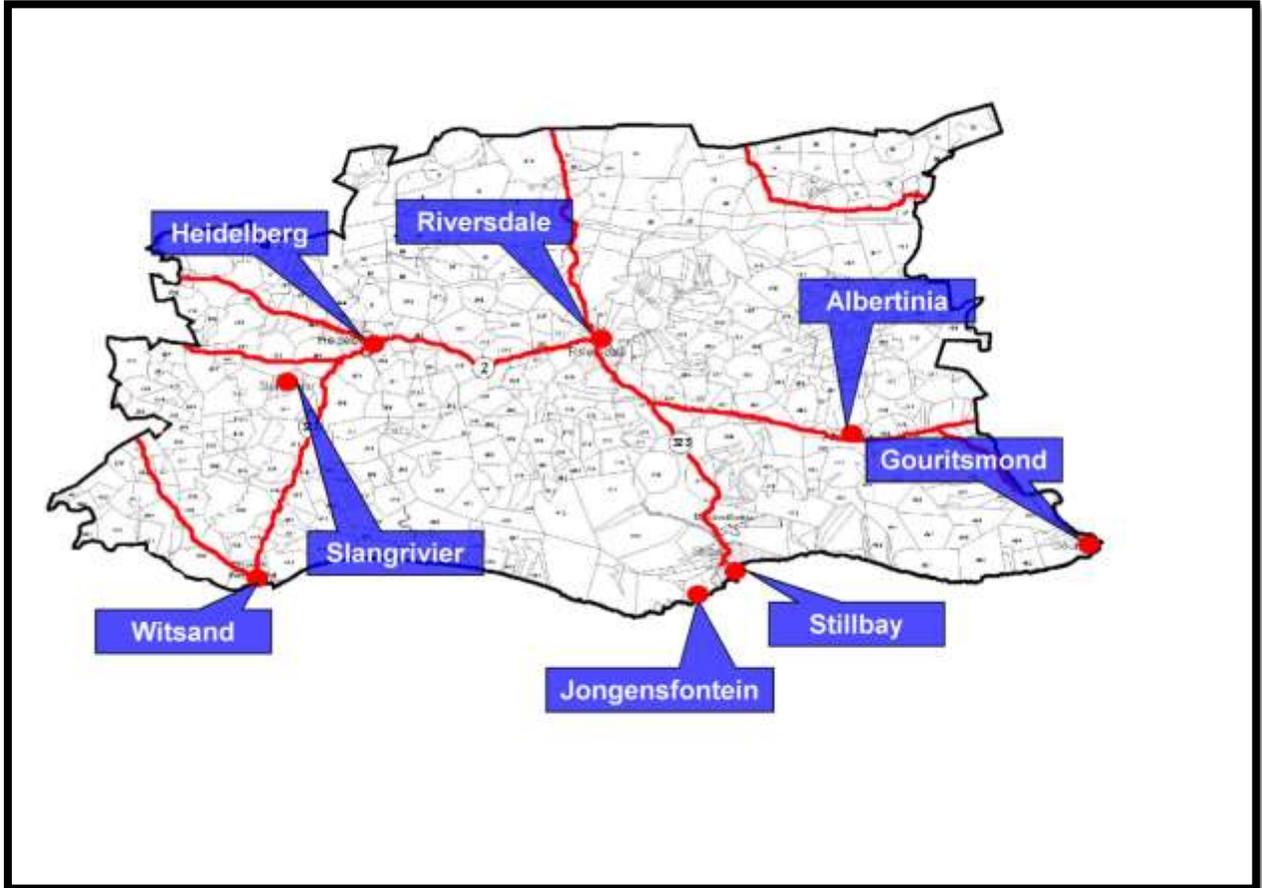
*The parks include all municipal public opens spaces, beaches, sport grounds, cemeteries and recreational parks. There are furthermore six (6) municipal resorts which are managed by this department and these resorts are situated in Riversdale, Stillbay, Witsand, Gouritsmond and Jongensfontein.*

*Various sectors of our community uses the above facilities and ranges from the normal inhabitant of Hessequa to Churches, Sport clubs, Tourists, Public Transport Operators, Motorists and individuals.*

*The aim of this department is to deliver a safe, accessible, reliable and affordable service insofar streets, storm water, parks and resorts are concerned.*

*The levels of service currently provided are within reasonable standards and access to streets and amenities are within acceptable ranges. The latter therefore imply the all home owners within Hessequa have sufficient access to streets en storm water services. Although the overall streets and storm water network's conditional rating can be classified as being are rated below average, many factors influence such ratings like aging infrastructure and extreme weather patterns and lack of sufficient funds which influence the overall performance of infrastructure.*

Hessequa Municipal area can be classified as geographically sparsely spread with distances in excess of 200km between towns located at the outer boundaries of the Hessequa Municipal area. The map below illustrates the latter and Riversdale is the administrative centre of the region.



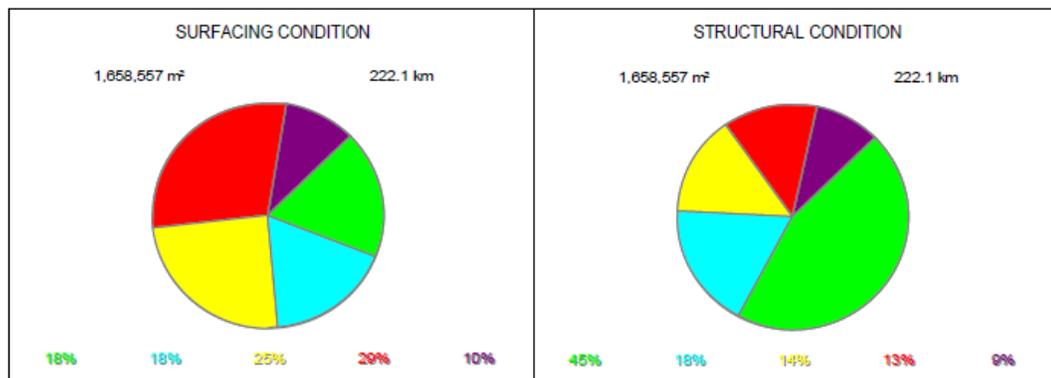
The N2 connects all in-land towns and provide access to all coastal towns via the Provincial Road network. Within each town, the extents of the street and storm water network are indicated in the table below:

TOWN	STREET NETWORK (km)		STROMWATER NETWORK (m)		
	SURFACED	GRAVEL	PIPE LENGTHS	OPEN CANALS	MANHOLES (no)
Riversdale	58.3	7.4	19655	9744	741
Stilbaai (+MHF)	70.5	3.2	15026	1417	334

<i>Albertinia</i>	27.3	4.3	6933	2149	180
<i>Heidelberg</i>	31.7	5.1	11086	6423	289
<i>Gouritsmond</i>	11.5	0.4	673	64	28
<i>Jongensfontein</i>	10.7	0.3	2903	428	71
<i>Witsand</i>	13.8	0.2	1022	437	32
<i>Slangrivier</i>	2.5	9.8	500	300	22
<b>TOTALS</b>	<b>226.3</b>	<b>30.7</b>	<b>57798</b>	<b>20962</b>	<b>1697</b>

Detailed information regarding the condition of the streets and storm water network can be found in the Pavement and Storm water Management Systems (PMS and SMS) and can be summarized as follows as extracted from the 2009 PMS and 2007 PMS respectively:

The total length of the paved network is 226.4km (222.1km tar, 3.7km block paving and 1.6km concrete pavements) with an estimated replacement value of R507.7 million. The average condition of the network can be rated as poor to very poor, with 39% of the surfacing and 22% of the structure in the poor to very poor category.



The estimated Funding Backlog on the bituminous pavements at this stage is R 105 million with the following immediate needs on the paved network:

**(2009 HESSEQUA PMS)**

The 2007 SMS conclusions suggest that future development of new infrastructure should be done according to best practice guidelines and all drainage infrastructure including streets, should be designed to accommodate run-off for 20-year storm events. In the past all drainage infrastructure was designed to accommodate 2-year storm events only due to economic factor as cost could increase exponentially for higher return periods.

*As stated previously, all households do have adequate access to streets and a storm water system although future upgrades are required as towns and suburbs expands.*

## **Basic Municipal Services**

### **Streets:**

*Three guideline studies exist which informs the development and maintenance of the street network namely:*

- 1. The **Hessequa Pavement Management System** is used to manage the municipal street network of Hessequa. The Pavement Management System is a subset of the Road Infrastructure Management System. The use of a Pavement Management System is generally accepted as being essential for determining the maintenance needs of road networks in a scientific manner. Implemented in a sequence of phases, it first identifies maintenance projects from a visual assessment of the pavement condition within the road network. It then determines the most economical alternative maintenance treatment. A Pavement Management System enables road authorities to establish their budget requirements objectively, as well as maintaining control over the pavement performance.*
- 2. The Hessequa Roads and Transport Master Plan were developed for the bigger town centres of Riversdale, Stilbaai and soon Heidelberg and Albertinia as well. The objective of these Master Plans are to address future scenarios for roads and transport development and propose future upgrades for the following:*
  - Road classification*
  - Operation conditions*
  - Road infrastructure*
  - Parking*
  - Public Transport*
  - Pedestrians and,*
  - Freight Transport*

*The Master Plans are also importantly used as guideline to inform decisions on new developments or rezoning application, contributions to be paid by developers, highlights infrastructure shortcomings, informs budgets and is also used to apply for funding from other state departments.*

- 3. The Hessequa Integrated Transport Plan (HITP) is a statutory planning document in terms of the National Land Transport Act 2009, (Act 5 of 2009) and its purpose is to*

*address key challenges w.r.t. land transport issues where people's mobility are adversely affected by high transport cost. Land transport in general is characterized by private and public transport and as integrated transport planning attempts to promote public transport usage due to its benefits of being a mass people mover. The HITP identified non-motorised transport (pedestrians and bicyclist) as being the major form of movement within towns due to the relative compact nature of our smaller towns.*

*Some of the findings in the HITP indicate that there is a need for improved public transport services in and between towns especially amongst the captive users of the system where no alternative mode exists. Since most users make use of walking within town, there is a further need for improved non-motorised infrastructure. One of the findings of the Eden ITP recommended the undertaking of an Eden Mobility Strategy and in February 2011, the Western Cape Department of Transport and Public Works commissioned the study to be undertaken. The objective of the study is to amongst other things; determine the feasibility of implementing an Eden wide public transport service which will connect all towns in Eden.*

### **Storm water**

*The principles and procedures for storm water management establishment and formalization were focused on:*

- *The hydrological modelling of urban and rural drainage regions*
- *The hydraulic analysis of conduits and natural waterways*
- *The compilation of management scenarios*
- *To identify, prioritize, find solutions and costing to upgrade sub-standard systems*
- *Maintenance management*

*The storm water management system comprises of the following modules:*

- *Hydrological modelling module. This module forms the basis of all urban modelling processes and management procedures*
- *Flood lines module which incorporates the most important information extracted from flood line studies conducted using different hydraulic and hydrological software packages. The data are represented in tables as well as graphically.*
- *As-build data capturing module which is divided into two separate sub-modules and which differentiates between two as-built collection methods namely:*
  - *Plan data collection from plans labelled as such*
  - *Site data collection from site visits.*