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#

MAKANA LOCAL MUNICIPALITY

**BUDGET REPORT 2010/11 TO
2012/13 (TABLING OF THE BUDGET
FOR APPROVAL – 31 MAY 2010)#**

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ANNEXURES ATTACHED:

- i. ANNEXURE "A" (Operating expenditure by vote)
- ii. ANNEXURE "B" (Operating revenue by vote and source)
- iii. ANNEXURE "C" (Categorised Summary of Operating Budget) and ANNEXURE "C(i)" (Detailed Operating Budget)
- iv. ANNEXURE "D" (Detailed Capital Budget by Vote and by Source)

- v. ANNEXURE "E" (Annual Charges, Monthly Charges and Miscellaneous Charges for 2010 / 2011 Financial Year)
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- vii. ANNEXURE "G" (Grants Receivable 2010 / 2011)
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- ix. ANNEXURE "I" (Financial / Budget related policies – **Only new or revised policies**).
- x. New National Treasury Budget formats (A1 to A10)

EXECUTIVE SUMMARY AND THE EXECUTIVE MAYOR'S REPORT

During the time when we were preparing the 2009 / 2010 (current financial year) financial year's budget the world was confronted with economic challenges resulting from worldwide economic meltdown. When we were commencing with the 2010/11 budget processes some positive news were announced indicating that South Africa is moving away from the recession, however, that will only be realised when the so many number of employees who lost their jobs in the recent past are employed, as increase in unemployment has direct negative impact to the municipality's finances.

The National Treasury has again availed a budget circular sensitizing us on how the 2010/11 budget must be prepared or considerations that must be borne in mind when the budget is prepared, some of which are national considerations. The issues relating to "clean / drinkable water" also feature very high in this circular. The National Treasury aims at ensuring that municipalities invest in improving water quality, and Treasury indicates in the circular they will demand to see in the budget what the municipality will do to address the water challenges. Whilst we are talking water we must also not lose focus on other income generating services, such as electricity, refuse, sewerage, etc. as investment on maintenance must address the need of these income generating services as well.

We are preparing this budget during the time when the municipal Council of Makana has just unanimously agreed on the intention to raise a loan. This is the decision that has been taken due to the infrastructural challenges that are facing this municipality, mainly in the area of Water, Sewerage and also Roads. It cannot be denied that raising a loan will have impact on rates and taxes for the municipal area, however, the health risks involved if the municipality further delays this decision cannot be underestimated. An amount of R6m from the Equitable Share has also been availed in the 2010/11 capital budget for urgent projects under Electricity, Water and Waste Management, and the relevant Departments were instructed when the draft budget was tabled to Council on the 31 March 2010 for adoption to avail business plans indicating exactly how such funds will be spent. All three Departments have availed their business plans and have been considered when preparing the final capital budget.

Unfortunately increases in electricity tariffs had to be set at 22% due to NERSA's decision of allowing ESKOM high increases. This will undoubtedly have negative impact to the ratepayers and may also impact on the arrear debt situation of the municipality "going forward".

If I may look back to the 2008/09 audited financial results, I am happy to indicate that as a municipality we have improved in capital as well as operating budget spending. Our capital budget spending has led to National Treasury releasing the **R3.9m** that was withheld in March 2009 for the Municipal Infrastructural Grant (MIG) and it will be transferred in the 2009/10 financial year, as the current year's allocation has been amended during the revised MTREF announced in December 2009.

As it has been a norm from the 2008/09 financial year a budget that addresses the problems experienced by the Rural Communities (namely Rural Outreach programme) has been set aside (**year 1 = R1.4m, year 2 = R1.5m and year 3 =**

R1.6m). This allocation is made possible from the Equitable Share allocation. The spending in the Rural Outreach programme will have to be improved in the 2010/11 financial year, and considerations must be made to ensure that this project is registered with the Department of Labour's Expanded Public Works' Programme (EPWP).

Lastly, I would like to express my sincere appreciation to the Budget / IDP Task Team members and other stakeholders involved who have made it possible for me to table this final budget to the Special Council, on or before end May 2010 as required by the Municipal Finance Management Act No. 56 of 2003.

CLLR VG LWANA

EXECUTIVE MAYOR: MAKANA MUNICIPALITY

1.1. MAKANA MUNICIPALITY AT A GLANCE

Makana Municipality is situated in the Province of the Eastern Cape and is one of the nine Local Municipalities under Cacadu District Municipality. Makana Municipality incorporates the areas of Grahamstown, Alicedale, Riebeeck East, Salem, Fort Brown, Seven Fountains and Sidbury. The Makana area of jurisdiction is known as the "Festival City of the Eastern Cape" due to the fact that various festivals are staged in this area, in a calendar year, such as "Arts Festival, Sci-Fest, Freedom Festival, Journalist's Annual Indaba", amongst other activities.

Makana Municipality is surrounded by world-known Game Reserves, such as Lalibela, Shamwari, Kwandwe, Kwantu, amongst others. The area boasts itself with highly recognised or highly rated educational institutions, such as Rhodes University and other colleges. The Makana Municipal area of jurisdiction is a historic area, where a number of frontier wars took place in the past. The municipality was allocated an amount of about R90m from National Treasury from the funding known as Neighborhood Development Partnership Grant (NDPG). The project has commenced in the current financial year and will be completed within a period of about three years.

Population and Household Data

The population figures for the Makana Area indicated as per the census 2001 amounts to a total population of 82 682, whilst the survey conducted by Cacadu District Municipality came up with a figure of 140 120, so it is possible that the total population in this area is above 110 000. The households' statistics as per the 2001 census gave a figure of 18 453, whilst the same survey conducted by Cacadu District Municipality resulted to a figure of 16 758, and it is therefore possible that the total households in the area exceed 17 000.

Executive Mayoral System

The municipality operates an Executive Mayoral Committee system with the Executive Mayor and five Portfolio Chairpersons being members of the Mayoral Committee. The meetings of the Mayoral Committee are held once a month, and the same applies to the meetings of the Portfolio Committees, whilst the Council meetings are held four times (or quarterly) during a calendar year.

Administration

The Municipal Manager / Accounting Officer is the head of administration and is supported by the following Directorates: -

- ❑ Corporate Services;
- ❑ Community and Social Services;
- ❑ Infrastructure Services (Including Housing and Land);
- ❑ Local Economic Development; and
- ❑ Finance

Financial Viability

The municipality was awarded a credit rating of Baa2.za by Moody's Investors Service in the 2007/08 financial year. The credit rating results for the 2008/09 financial year is being awaited. The rating results of Baa2.za indicate that the municipality's financial and economic outlook is stable, as this symbol represents average credit worthiness. The municipality is faced with many challenges that include the non-payment of services, with the payment rate a little under 80% as at end June 2009. The aging infrastructure is also a big challenge for the municipality, and the municipal Council has recently resolved to approve an intention to raise a loan. Processes are in place to proceed with this lengthy process, and it can be confirmed that an advertisement was placed in the newspapers recently and the closing date for the potential financial institutions interested is the Friday, 28 May 2010. It is hoped that by 30 June 2010 the decision for accepting the offer of a loan would have been made or accepted by the Council.

1.2. MUNICIPAL SERVICES AT A GLANCE

Makana Municipality provides the following essential services under its area of jurisdiction: -

- Electricity (providing electricity through Eskom in former Grahamstown East and certain rural areas, whilst former Grahamstown West and part of Alicedale is supplied by the Municipality);
- Sewerage;
- Water;
- Refuse Removal, and

Other essential services such as Libraries, Traffic Control, and Environmental Management are also provided by the municipality. Makana Municipality also provides Primary Health services on an "agency basis". The problem with Primary Health provision is the fact that Makana Municipality contributes more than the required 20% of the supposed **80:20** split and the fact that nurses are resigning or leaving the municipality for "greener pastures" in Provincial Health Department due to salaries being provided by the Department, which is higher than the grading of the municipality.

In an endeavour to promote or market the area of Makana the municipality has a long-standing arrangement with Makana Tourism, and the municipality avails some financial allocation to this institution. The Municipality has recently signed (early in

2010) a Service Level Agreement (SLA) with Makana Tourism in order to formalise this arrangement.

Makana Municipality does not operate nor has a “municipal entity” under its control and does not utilise external mechanisms for basic service delivery.

1.3. THE EXECUTIVE MAYOR’S BUDGET SPEECH

The separate document covering the Mayor’s Budget Speech will be made available **when** tabling the **final** budget to Council for **approval** and will also be loaded on the internet.

1.4. BUDGET PROCESS OVERVIEW

In August 2009 the Chief Financial Officer tabled a Budget Timetable which indicated vital due dates of all budget related processes. A combined timetable for the budget and IDP with due dates was tabled and approved by Council in September 2009. The budget timetable and IDP were circulated to all Directorates’ Heads of Departments and were also discussed at the Senior Management Team meetings which are held at least twice a month. Directorates were being kept reminded when the closing dates were drawing closer so that deadlines are achieved. Although certain Directorates have improved in ensuring that budget documents are submitted on or before the closing date, it is still proving a challenge for others in meeting the due date.

The following is the Budget Timetable as approved by the municipal Council in September 2009, which has been used to ensure that the budget is completed in time or as planned: -

Figure 1.5.1. Budget Timetable for the 2010/11 Financial Year

BUDGET TIMETABLE FOR THE 2010 / 2011 FINANCIAL YEAR

[NB: This Budget Timetable is not sacrosanct for as long as Departments are able to work with Finance Department to ensure that all “key due dates” are fully met].

Completion Date	Activity	Responsibility
1 - 15 August 2009	Directors to have held meeting/s with their Portfolio Councillors, HOD's to discuss the budget timetable, policies, guidelines and instructions and to have discussed priorities for the ensuing financial year.	Directors
17 August to 16 October 2009	Portfolio councillors / managers / directors to have completed all community participation meetings to gather information to be used in setting up budget + (IDP) plans on both capital / operational budgets and tariffs.	All Portfolio Councillors / Managers / Directors
30 November 2009	Draft operational / capital budgets and tariffs to have been completed and submitted to the Budget Office. [Please make sure that information provided for IDP purposes is costed and is incorporated to the budget as well (for both operating and capital budgets. Failure to do so will result to your projects not inputted into the budget].	All Managers / Directors
22 January 2010	Budget plans, capital / operational budget to have been consolidated (based on the budget inputs submitted by Departments on or before 30 November 2009) by the Budget Office and availed to all Departments and also Budget / IDP Task Team (Steering Committee).	Budget Office
29 January 2010	Directors to have met with their HOD's and any relevant staff members to discuss draft capital / operational budget to ensure that anticipated expenditure meets parameters set out by National / Provincial Government.	Directors / Budget Office
1 to 28 February 2010	Budget / IDP Steering Committee to conduct Budget Meetings in order to ensure that the tabled budget on or before end March 2010 is closer to balancing and is in line with the IDP	Budget / IDP Steering Committee
16 March 2010	All Draft Budget Documents, Draft IDP, Draft SDBIP and relevant items must be ready for the Council meeting of end March 2010. Mayor must have been updated on the state of the documents (is the budget balancing, what are assumptions that have been made, what have been the challenges???, etc.).	IDP/PMS Manager and CFO
31 March 2010	Mayor to have tabled draft budget, resolution, plans and changes to the IDP to Council + MM to ensure that all Draft Documents are forwarded to the relevant stakeholders (e.g. Government Departments, District Municipality, etc.).	Executive Mayor / Municipal Manager
1 to 23 April 2010	Mayor to have completed public hearings on the budget + IDP where the Executive Mayor and Councillors present budget + IDP to the communities for comments or contributions (public participation process).	Executive Mayor / All Councillors / Senior Management / HOD's

14 May 2010	Budget Documents, IDP, SDBIP and relevant items must be ready for the Council meeting of end May 2010. Mayor must have been updated on the state of the documents (is the budget balancing, what are assumptions that have been made, what have been the challenges???, etc.) and Budget Speech made ready.	IDP/PMS Manager and CFO
31 May 2010	Mayor to have presented final budget to Council for adoption and to have included operating / capital budget, resolutions, tariffs, capital implementation plans, operational objectives, changes to IDP and budget plans.	Executive Mayor / CFO and IDP/PMS Manager
7 June 2010	MM to have ensured that all Budget / IDP documents are forwarded to the relevant stakeholders (e.g. Government Departments such as National and Provincial Treasuries, DPLG, etc.) in the correct formats, and that tariffs are published.	MM / IDP Manager / CFO
14 June 2010	Draft SDBIP to have been tabled by the MM to the Executive Mayor	MM
28 June 2010	Final SDBIP's completed and KPI's drawn or finalised	IDP and PMS Managers
30 June 2010	Final SDBIP, Performance Plans, Rating Calculators and Performance Agreement completed and signed for implementation as from the 1 July 2010 (2010/2011 Financial Year)	All Directors and Heads of Departments End the process starts again for the 2011/12 financial year...

INSTRUCTIONS AND GUIDELINES

It is the sole responsibility of the Director concerned to ensure that the Budget is accurately completed on the work sheets and are forwarded to the Finance Directorate timeously (on or before the due date).

The following is also of great importance:-

- A three year budget is to be prepared and the Council's IDP consulted at all times.
- The Finance Directorate will calculate the budget for the basic remuneration component (**all salaries and wages except for items such as "overtime"**).
- Each Directorate must provide the Finance Directorate with a detailed list of vacancies (**as per approved organogram**) that must be incorporated in the Budget, with information such as 'Position' or 'Designation' and 'Job Grade', on or before **30 November 2009 (or when the budget documents are submitted)**.
- Average increase on the annual operating budget is recommended to be as follows: -
 - 2010/2011: 7%**
 - 2011/2012: 7%**
 - 2012/2013: 7%**
- Relevant documentation for Capital Expenditure must be completed (**obtainable from the Finance Directorate**).

- The Director: Infrastructure must liaise with the NER for guidelines on increase in electricity income.
- All amounts budgeted must be rounded off to the nearest R10.
- Ensure that at least quotations are obtained in cases where capital items are required (don't work on assumptions).
- Assist yourself and the Budget/IDP Steering Committee by prioritising your budget requirements upfront (as budget will always be limited: Demand vs. Supply factor)

Do not hesitate to contact the Chief Financial Officer for any points of clarity or uncertainty regarding this Circular at contact number 046 603 6007 / 6130.

M.J. NGCELWANE

CHIEF FINANCIAL OFFICER

The Executive Mayor also embarked on Mayoral Community consultation processes around the municipal area during the months of October – November 2009, and the issues raised by communities were also used to inform the budget and IDP processes.

1.5. FINANCIAL CHALLENGES / CONSTRAINTS AND ASSUMPTIONS

Makana Municipality is surrounded by a number of rural areas under its area of jurisdiction, and obviously the municipality is experiencing a high unemployment rate. The high financial dependence for the municipality is mainly the Electricity Income whilst Grants and Subsidies are coming second. The high dependence on Grants and Subsidies is of great concern as that could create a disaster if such grants fail to materialise for unknown reasons.

The arrear debt situation is of concern as at the end January 2010 the arrear debt situation was standing at **R162.5m** with government debt amounting to **R16.6m** which is about 10.2% of the total arrear debt. These are the challenges that we must all jointly endeavour to address in the upcoming financial years, and also continue ensuring that those who are indigent and poor are brought into the “safety net” through the municipality’s Indigent / Assistance to the Poor Policy. The municipality has gone out on tender calling proposals for “debt collection and data cleansing” and such proposals closed on the 19 March 2010. The decisions will be made soon where experienced and capable service providers will be appointed for this crucial exercise. The delay on finalising the matter resulted from the more involved exercise of preparing the 2010/11 financial year’s budget.

The Municipality has also budgeted for the provision for bad debts against various services such as Electricity, Water, Sewerage and Refuse in order to cater for escalating non-payment of services.

1.6. GRANTS RECEIVABLE IN THE 2010 FINANCIAL YEAR

The following are grants (conditional / non conditional) receivable from National Organs of states for various purposes as indicated in the Annual Division of Revenue Act as availed immediately after the budget speech by the Minister of Finance (Mr P

Gordhan) in early February 2010. The figures indicated in this schedule have been confirmed by National Treasury: -

Figure: 1.7.1 GRANT FUNDING – 2010 / 2011 (As per Division of Revenue Act)

TYPE OF GRANT	2009 / 2010 Allocation	2010 / 2011 ALLOCATION (As per Municipal Financial Year)	2011 / 2012 ALLOCATION (As per Municipal Financial Year)	2012 / 2013 ALLOCATION (As per Municipal Financial Year)	Page Number of the DOR Bill
Equitable Share	R41 807 000	R53 620 000 (Including special contribution towards Cllr's remuneration of R1 334 000)	R60 557 000 (Including special contribution towards Cllr's remuneration of R1 418 000)	R66 657 000 (Including special contribution towards Cllr's remuneration of R1 489 000)	26 and 288
Financial Management Grant	R750 000	R1 200 000	R1 450 000	R1 500 000	162
Municipal Systems Improvement Grant	R735 000	R750 000	R790 000	R800 000	162
Municipal Infrastructure Grant	R18 128 000	R20 213 000	R24 311 000	R29 560 000	185
National Electrification Grant	R6 000 000	R7 410 000	R8 000 000	R5 000 000	207
Integrated National Electrification Grant (through Eskom or not to be paid to Makana LM)	R0	R236 000	R0	R0	241
Neighborhood Development Partnership Grant	R1 000 000 (TAG) and R20 000 000 (IG)	R20 000 000 (IG) and R1 000 000 (TAG)	R15 000 000	R5 491 000	185 and 252

TOTAL	R88 420 000	R104 429 000	R110 108 000	R109 008 000	

The spending on conditional grants by the municipality has improved and this can also be demonstrated by the fact that the National Treasury increased the 2009/10 allocation for the MIG (Municipal Infrastructure Grant) by an amount of R3.9m which was withheld in the previous financial year.

1.7. OVERVIEW OF BUDGET RELATED POLICIES

The Finance Directorate embarks on a process of reviewing all financial related policies from the beginning of a financial year. All financial related policies are then tabled to Council for approval when the budget is finally approved by Council on or before end May of each, and the 2010/11 budget preparation will not be different to other years. Financial related policies that are attached to the budget documents for approval by Council are (i) Asset Disposal and (ii) Virement Policies as they are the only new policies that have been developed and the other policies have not been amended considerably.

1.8. OVERVIEW OF BUDGET FUNDING

The sources of funding the municipality's budget include inter-alia (i) Electricity charges, (ii) Water Charges, (iii) Sewerage Charges, (iv) Refuse Charges, (v) Property Rates and a bigger portion also originates from (vi) Grant Funding. The high dependence on grants could signal some challenges in cases where the municipality fails to receive such grants from relevant authorities. The bigger portion of grant funding is the Equitable Share which is unconditional by nature and followed by conditional grants such as (i) Municipal Infrastructure Grant and (ii) Neighborhood Development Partnership Grant (NDPG). The conditional grants can be utilised only for their sole purpose (or in terms of the Division of Revenue Act), whilst the unconditional grants can be used at the discretion of the municipality.

The property valuation process that has been conducted during the first half of the 2009/10 financial year has been implemented with effect from 1 November 2009. During this process the Property Valuers identified even some properties that have not been valuated or that were not forming part of the Valuation Roll and this including other errors identified could improve the revenue base of the municipality. The exercise conducted by the Property Valuers will be followed by the "data cleansing" process where an independent service provider will be appointed to verify the accuracy of the municipal data, and also ensuring that every property in our municipal area is rated or appears in our valuation roll in the correct category. The calls for proposals for this tender closed on Friday, 19 March 2010 and it is hoped that decision will be made soon on a winning bidder.

The escalating increase in the debtor's situation is worrying more so when the government departments are also owing the municipality about R16.6m as at end January 2010 (**please also see paragraph 1.6**). The debt collection rate as at end June 2009 was about 80% which indicates that for every R1 billed there's a likelihood

that R0.20 will not be collected and this assumption was used in providing for a working capital (provision for bad debts).

As indicated earlier on the municipality intends raising a loan amounting to **R50m** mainly to finance infrastructure requirements relating to water and roads. The decision for an intention to raise a loan was taken at a Special Council meeting held on Wednesday, 24 February 2010, and advertisements were placed on newspapers (namely Grocotts Mail, The Herald and Daily Dispatch) in order to inform all stakeholders. The newsletters were attached to municipal accounts and also forwarded to National and Provincial Treasuries directly. The details of the projects to be financed from the loan are as follows: -

Figure 1.9.1 Projects to be financed from the R50m loan to be raised

PROJECT DESCRIPTION	SERVICE TYPE	AREA	ESTIMATED AMOUNT
Extension to Cacadu Road Contract in creating a complete ring road	Roads	Extension 8	R2 040 000
"A" Street extending to "B" Street ring road	Roads	Vukani Area	R8 700 000
Ntwasahlobo Street	Roads	Extension 6	R3 260 000
Access Road improvement	Roads	Riebeeck East	R2 000 000
2.2km Roads and Stormwater connection in Alicedale	Roads and Stormwater	Alicedale	R4 000 000
Bulk Water Infrastructure (Botha's Hill and Grahamstown West)	Water	Grahamstown	R7 350 000
Installing isolating valves and bulk Water meters (Grahamstown East)	Water	Grahamstown	R2 000 000
Upgrading of existing pipelines (Grahamstown West)	Water	Grahamstown	R7 412 000
Upgrading Belmont Valley	Sewer Infrastructure	Grahamstown	R5 538 000
Investigate conditions of existing sewer pipes (Grahamstown West)	Sewer Infrastructure	Grahamstown	R1 500 000
Upgrading existing sewer pipelines (Grahamstown West)	Sewer Infrastructure	Grahamstown	R5 000 000
Upgrading diameter sizes for sewer pipes to accommodate Mayfield Phase 2	Sewer Infrastructure	Grahamstown	R1 200 000
GRAND TOTAL			R50 000 000

Obviously the above loan will have impact on rates and taxes for the ratepayers of Makana, however, the challenges faced by the municipality will never be addressed by relying only at the internal sources of funding hence this decision. The other conditional grants are not in a position to be utilised for funding the above as well, as they are targeting certain areas of Makana and cannot be used for funding maintenance of existing infrastructure.

1.10 DISCLOSURE OF ALLOCATIONS MADE BY THE MUNICIPALITY

Makana Municipality has an old arrangement with Makana Tourism in an endeavour to ensure that the municipal area is marketed. The Municipality makes annual financial contribution to Makana Tourism in order for it to finance its operations. Makana Tourism is in turn expected to provide quarterly financial reports, as well as Audited Annual Financial statements to the municipality. The financial reporting attempts to allay the municipality of any abuse of public funds by the organisation. The Makana Tourism has been allocated an amount of **R464 500** in the 2009/10 financial year from **R422 280 (2008/09)** an increase of **10%**. The allocation for 2010/11 amounting to **R508 600** will be included in the Council resolution for the approval of the budget or allocation and also indicate exactly how the amount will be paid to Makana Tourism.

1.11 SALARIES AND ALLOWANCES PAYABLE TO COUNCILLORS AND SECTION 56/7 EMPLOYEES AND OTHER BUDGET RELATED INFORMATION

The assumptions made on increasing salaries and allowances have been fixed at an increase of **9.5%** for everyone within the institution. The total budgeted allowances payable to Councillors amount to **R6.6m** whilst the budgeted allowances payable to Section 56/57 employees (i.e. Municipal Manager and other Senior Managers) amount to **R5.5m**.

The summary of budgeted allowances for Section 56/57 employees can be displayed as follows: -

Figure 1.11.1. Budgeted Salaries and allowances for Section 56/57 employees (2010/11)

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Performance Bonus	Total
1 x Municipal Manager	R828 201	R147 409	R13 403	R140 029	R1 130 401
5 x Directors	R3 165 919	R603 017	R50 315	R536 003	R4 355 253
TOTAL	R3 994 120	R750 426	R63 718	R676 032	R5 485 654

The following are detailed budgeted salaries and allowances for Section 56/57 employees: -

Figure 1.11.1(a) Detailed Budgeted Salaries and allowances for Section 56/57 employees (2010/11)

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Performance Bonus	Total
1 x Municipal Manager	R828 201	R147 409	R13 403	R140 029	R1 130 401
1 x Chief Financial Officer	R633 184	R120 603	R10 063	R107 201	R871 051
Director: Corporate Services	R633 184	R120 603	R10 063	R107 201	R871 051
Director: Local Economic Development	R633 184	R120 603	R10 063	R107 201	R871 051
Director:	R633 184	R120 603	R10 063	R107 201	R871 051

Community and Social Services					
Director: Infrastructural Services	R633 184	R120 603	R10 063	R107 201	R871 051
TOTAL	R3 994 120	R750 426	R63 718	R676 032	R5 485 654

The summary of budgeted allowances for Councillors can be displayed as follows: -

Figure 1.11.2. Budgeted Salaries and allowances for Councillors

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Total
1 x Executive Mayor	R455 800	R151 933	R37 502	R645 235
5 x Members of Mayoral Committee	R1 709 246	R569 750	R93 623	R2 372 619
1 x Speaker of Council	R200 551	R66 851	R11 681	R279 084
17 x Other Councillors	R2 324 567	R774 849	R198 585	R3 298 001
TOTAL	R4 690 164	R1 563 383	R341 391	R6 594 939

OPERATING REVENUE: The total Operating Income for 2010/11 financial year amounts to R326m and “at a glance” can be summarised as follows: –

Figure 1.11.3. Draft Operating Income 2010/11 (at a Directorate level)

Votes	MTREF			Medium Term Revenue & Expenditure Framework		
	Current Year			2010/2011	2011/2012	2012/2013
	2008/2009	2009/2010				
	Audited Actual	Approv. Budget	Adjust. Budget	Budget Year	Budget Year+1	Budget Year+2
R	R	R	R	R	R	
Mayoral Executive	89 172	120 940	120 940	146 740	157 010	169 571
Municipal Council	8 347 673	1 159 460	1 159 460	1 417 260	1 530 641	1 653 092
Office of the Accounting Officer	254 258	1 385 000	1 385 000	1 950 000	2 092 000	2 259 360
Budget & Treasury Office	52 312 617	44 871 130	48 021 130	54 253 360	58 593 629	63 281 119
Technical Services	130 482 443	140 426 040	140 426 040	172 123 490	185 893 369	200 764 839
Community & Social Services	26 050 286	24 064 420	24 064 420	26 173 710	28 150 816	30 402 881
Corporate Services	225 679	603 350	603 350	418 220	451 678	487 812
Local Economic Development	362 901			234 250	252 990	273 229
Capital Funding				69 596 100	57 811 500	51 325 830
TOTAL FOR VOTES	218 125 029	212 630 340	215 780 340	326 313 130	334 933 632	350 617 733

It must be mentioned that included in the amount of R326.3m is an amount of R69.6m for capital expenditure, financed by external grants and internal sources of funding. All these funds must now be reflected in the operating income as capital receipts hence there is a difference between the operating expenditure vs. the operating income.

The following section is an illustration of the revenue sources for the municipality: -

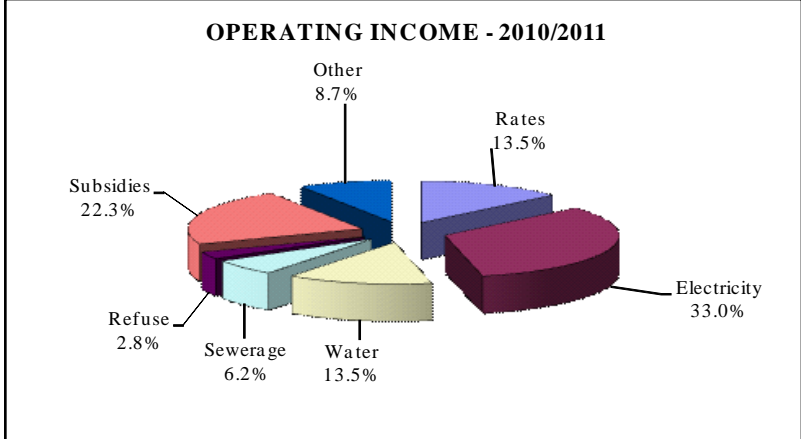
Figure 1.11.4. Operating revenue by source

Summary of Sources of Revenue						
Sources of Revenue	MTREF Current Year			Medium Term Revenue & Expenditure Framework		
	2008/2009	2009/2010		2010/2011	2011/2012	2012/2013
	Audited Actual R	Approv. Budget R	Adjust. Budget R	Budget Year R	Budget Year+1 R	Budget Year+2 R
Primary Class	108 597 242	144 846 000	144 846 000	176 843 190	178 292 246	183 667 820
Property rates	28 326 442	29 913 670	29 913 670	34 723 000	42 495 460	46 071 100
Sewerage/sanitation	12 815 027	13 876 050	13 876 050	15 886 830	17 264 496	17 574 610
Waste management	6 111 963	6 368 720	6 368 720	6 909 780	7 496 850	7 496 850
Electricity	49 944 678	66 033 260	66 033 260	84 759 250	77 602 620	77 743 450
Water	11 399 132	28 654 300	28 654 300	34 564 330	33 432 820	34 781 810
Secondary Class	53 960 392	24 842 340	24 842 340	50 269 590	60 850 496	64 626 793
Building plan fees	385 790	454 370	454 370	495 340	529 220	529 220
Rental - facilities and equipment	1 969 373	931 980	931 980	1 165 130	1 202 480	1 273 620
Interest on investments	7 658 781	5 700 000	5 700 000	7 500 000	7 000 000	8 398 080
Interest on outstanding debtors	10 041 040	5 000 000	5 000 000	8 000 000	6 000 000	6 000 000
Traffic fines	1 260 590	1 224 600	1 224 600	700 000	1 408 290	1 619 530
Licences and permits	2 043 525	1 635 660	1 635 660	1 776 430	2 306 510	2 490 070
Vehicle examination fees	265 980	276 790	276 790	280 000	337 410	388 020
Agency services (vehicle licencing)	704 906	575 010	575 010	700 000	670 930	672 360
Cemeteries	223 370	200 000	200 000	276 000	133 280	133 280
Fire control	75 208	139 980	139 980	139 980	146 990	153 600
Grants and subsidies	4 958 830	7 859 510	7 859 510	8 352 790	8 504 690	8 777 140
Other income	24 372 999	844 440	844 440	20 883 920	32 610 696	34 191 873
Division of Revenue Act	55 371 867	42 942 000	46 092 000	99 200 350	95 790 890	102 323 120
Equitable share	33 999 570	41 807 000	41 807 000	47 420 000	50 739 390	54 188 290
Equitable share (Capital Projects)				6 200 000		
Finance Management Grants	1 080 035	750 000	1 000 000	1 200 000	1 450 000	1 500 000
National Electrification Grant				7 410 000	8 000 000	5 000 000
Mun. Infrastructural Grants	20 104 437			19 247 360	23 095 450	28 082 000
DSRAC				619 000		
Mun. Systems Improvement Grants	187 825	385 000	385 000	750 000	790 000	800 000
Capital Replacement Reserve				16 353 990	11 716 050	12 752 830
Previous Year Reserves			2 900 000			
TOTAL REVENUE	217 929 501	212 630 340	215 780 340	326 313 130	334 933 632	350 617 733

The graphical presentation of the above can be illustrated in the following paragraph:

-

Figure 1.11.5. Graphical presentation of sources of income



Reading from this graph it can be seen that the municipality heavily relies on electricity as a main funding source for its operations. It is a worrying factor to note that grants and subsidies are coming second as a source of funding for the municipality.

OPERATING EXPENDITURE: The total operating expenditure amounts to **R256.7m** and can be illustrated as follows: -

Figure 1.11.6. Total Operating Expenditure (at a Directorate level)

MAKANA MUNICIPALITY				Annexure "A"		
Summary of Estimates of Operating Expenditure by Vote						
Votes	MTREF			Medium Term Revenue & Expenditure Framework		
	Current Year			2010/2011 Budget Year R	2011/2012 Budget Year+1 R	2012/2013 Budget Year+2 R
	2008/2009 Audited Actual R	2009/2010 Approv. Budget R	2009/2010 Adjust. Budget R			
Mayoral Executive	2 407 209	1 500 510	1 500 510	1 580 450	1 706 886	1 843 437
Municipal Council	13 279 160	7 446 290	7 446 290	8 515 840	9 197 107	9 932 876
Office of the Accounting Officer	3 822 054	7 718 210	7 718 210	8 627 650	9 317 862	10 063 291
Budget & Treasury Office	27 114 356	11 960 060	15 100 050	15 352 420	16 580 614	17 907 063
Technical Services	98 690 141	122 044 500	122 044 500	151 135 510	163 210 882	176 267 752
Community & Social Services	42 463 245	51 055 480	51 055 480	56 432 210	60 829 996	65 696 395
Corporate Services	8 737 749	7 767 720	7 767 720	10 329 890	11 156 281	12 048 784
Local Economic Development	2 579 105	3 147 580	3 147 580	4 743 060	5 122 505	5 532 305
TOTAL FOR VOTES	199 093 019	212 630 340	215 780 340	256 717 030	277 122 132	299 291 903

The above figures indicate that the operating budget has been increased by **18.9%** year-on-year and some of the reasons for this increase include inter-alia the following (i) Implementation of the Retention Strategy, (ii) Increasing Repairs and Maintenance for Income Generating Services (e.g. Electricity / Water / Sewerage and Refuse), (iii) Loan repayment resulting from the "raising of a loan", (iv) Back pay payable to Municipal Employees, amongst others.

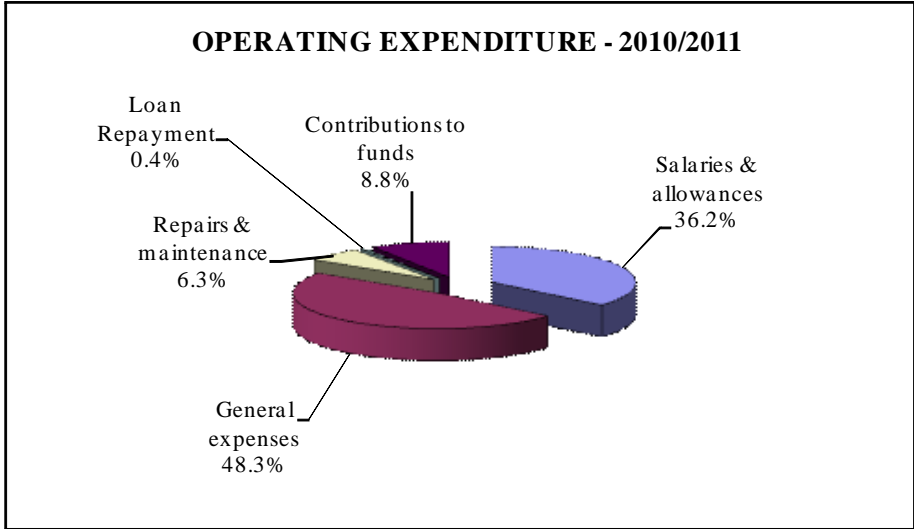
The following figure illustrates the operating budget at a category level: -

Figure 1.11.7. Operating Expenditure at a Category Level

MAKANA MUNICIPALITY				Annexure "A"		
Summary of Estimates of Operating Expenditure by Standard Item						
Standard items	MTREF			Medium Term Revenue & Expenditure Framework		
	Current Year			2010/2011 Budget Year R	2011/2012 Budget Year+1 R	2012/2013 Budget Year+2 R
	2008/2009 Audited Actual R	2009/2010 Approv. Budget R	2009/2010 Adjust. Budget R			
Employee related costs	68 018 747	81 782 270	81 782 270	92 828 440	100 254 715	108 275 092
Remuneration of Councillors	5 429 968	6 276 100	6 276 100	7 218 460	7 897 261	8 647 500
Bulk purchases:						
Electricity	28 153 867	38 159 030	38 159 030	47 821 890	51 647 641	55 779 452
Water	18 466	346 500	346 500	500 000	440 680	471 530
General expenses	54 291 758	51 493 370	54 643 370	68 428 370	73 885 166	79 681 926
Repairs and maintenance	8 224 923	12 480 230	12 480 230	16 287 500	17 473 709	18 871 606
Depreciation		4 037 510	4 037 510			
Loan Repayment				1 000 000	1 080 000	1 166 400
Contributions to funds	35 096 290	18 055 330	18 055 330	22 632 370	24 442 960	26 398 396
TOTAL EXPENDITURE	199 234 019	212 630 340	215 780 340	256 717 030	277 122 132	299 291 903

The Graphical Presentation of the above can be illustrated in the following manner: -

Figure 1.11.8. Graphical Presentation of Expenditure (2010 / 11)



The above graph gives representation of different categories of expenditure as a percentage of the total budget. From the above graph it can be seen that general expenses spend more of the allocated operating budget at a rate of 48.3% whilst salaries are at 36.2%. Of note in the above graphical presentation is the introduction of a new category called “loan repayment” which is for budgeting for the repayment of a loan which the municipality intends to raise.

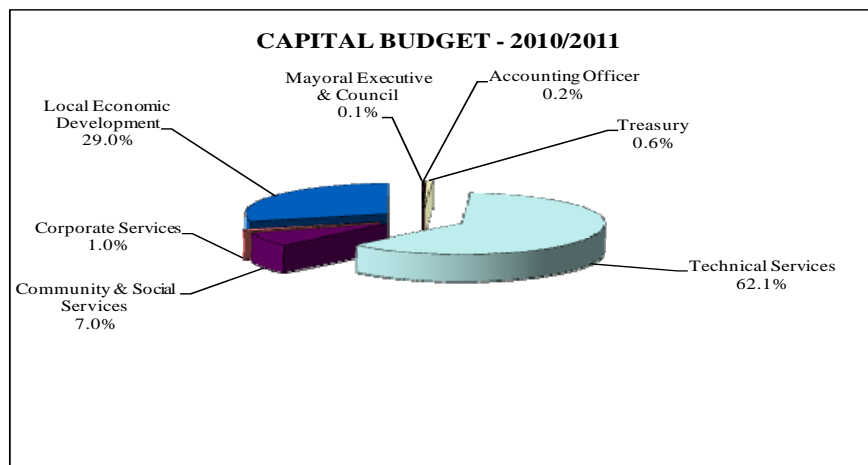
CAPITAL BUDGET: The total Capital Budget for the 2010/11 financial year amounts to **R69.6m** of which about **R53.2m (or 76%)** is funded from grants receivable from other spheres of government. Conditional Grants received from national government are transferred to the municipality in terms of the Division of Revenue Act and are to be incurred for their specific purposes and reported to National Treasury on a monthly or quarterly basis. The following is the summary of capital budget at a Departmental level: -

Figure 1.11.9. Summary of Estimates of Capital Budget at a Directorate Level (or by Vote)

Summary of Estimates of Capital Expenditure by Vote						
Votes	MTREF Current Year			Medium Term Revenue & Expenditure Framework		
	2008/2009	2009/2010		2010/2011	2011/2012	2012/2013
	Audited Actual R	Approv. Budget R	Adjust. Budget R	Budget Year R	Budget Year+1 R	Budget Year+2 R
Mayoral Executive	11 864	30 000	30 000	30 000	30 000	30 000
Municipal Council	143 819	170 000	170 000	38 000		
Office of the Accounting Officer	337 400	69 300	69 300	114 500	15 000	16 100
Budget & Treasury Office	143 623	50 000	184 000	450 000	90 000	100 000
Technical Services	26 912 817	49 632 890	59 452 570	43 235 850	41 383 150	44 113 100
Community & Social Services	6 521 840	2 507 500	3 588 720	4 839 500	404 250	115 230
Corporate Services	3 095 876	279 450	3 104 960	694 000	129 100	60 400
Local Economic Development	305 095			20 194 250	15 760 000	6 891 000
TOTAL FOR VOTES	37 472 334	52 739 140	66 599 550	69 596 100	57 811 500	51 325 830

Figure 1.11.10. Graphical Presentation of the Capital Budget

The following figure illustrates the above in a graphical format: -



The above graph indicates that 62.1% of the total capital budget of R69.6m will be spent towards Infrastructure related projects. Infrastructure projects are mainly funded from the external funding sources such as Municipal Infrastructure Grant and Neighborhood Development Partnership Grant.

The following figure indicates the funding sources of the capital budget for the 2010 / 11 financial year: -

Figure 1.11.11. Illustration of Funding Sources of Capital Budget

Source	MTREF			Medium Term Revenue & Expenditure Framework		
	Current Year			2010/2011 Budget Year	2011/2012 Budget Year+1	2012/2013 Budget Year+2
	2008/2009	2009/2010				
	Audited Actual R	Approv. Budget R	Adjust. Budget R	R	R	R
Capital Replacement Reserve	6 976 119	9 517 550	9 517 550	16 183 990	11 716 050	12 752 830
Operating Income	328 905					
Grants and Subsidies	30 167 310	43 221 590	57 082 000	53 412 110	46 095 450	38 573 000
	37 472 334	52 739 140	66 599 550	69 596 100	57 811 500	51 325 830

The amount of **R16 183 990** indicated as funded from Capital Replacement Reserve is the portion of capital spending that can be afforded from the internal sources of funding or the erstwhile Asset Finance Fund (AFF). This amount has been increased drastically as compared to the previous financial year and it can be confirmed that the municipality's cashflows won't be strained by budgeting for this amount more so if the vigorous credit control measures are implemented for collecting what is due to the municipality.

1.12. CURRENT OVERALL FINANCIAL POSITION AND LIQUIDITY SITUATION

The Municipality is reasonable liquid based on its size and its budget. Makana Municipality ensures that prudent financial controls are in place and are practiced. The municipality is also in a position of accounting for funding that is financed externally, such as conditional grants, and others. As at end February 2010 the investment portfolio for the municipality amounted to **R77 677 142** of which **R47 910 666** is invested in call investments. The above investments are committed towards other projects of capital nature, and also to fund operating expenses such as Salaries and Wages, General Expenses, etc.

FUNDING REPAIRS AND MAINTENANCE COSTS: The municipality took a decision that the budget for repairs and maintenance costs for "income generating services" namely (i) Electricity, (ii) Water, (iii) Sewerage and (iv) Refuse must at least be equated to about **8%** of the total billable income for that particular service. The following figure illustrates allocations made towards repairs and maintenance budget for the abovementioned services in the 2010/11 financial year: -

Figure 1.12(a) Increases made in the Category of Repairs and Maintenance

SERVICE	BUDGET: 2009/10	BUDGET: 2010/11	%ntage INCREASE
1. Water	R1 594 350	R2 736 260	71.6%
2. Electricity	R1 969 440	R3 532 870	79.4%

3. Sewerage	R686 630	R1 121 390	63.3%
4. Refuse	R644 360	R820 960	27.4%
TOTAL	R4 894 780	R8 211 480	67.8%

The approach of increasing the repairs and maintenance budget for the income generating assets also tries to respond to the advice from National Treasury in terms of Circular 48 of 2009 and also Circular 51 of 2010. It is a known fact that the municipality has numerous water related challenges which has led to accessing or raising a loan from financial institutions.

1.13. IMPLEMENTATION OF THE MFMA AND OTHER LEGISLATION

The municipality works very hard in ensuring that it implements all necessary statutory requirements applicable in a municipal environment within its limited financial resources and also human resources. The municipality has managed to implement Grap/Gamap requirements with effect from the 2008/09 financial year and has also implemented Municipal Property Rates Act No. 6 of 2004. Efforts have been made to ensure that the new budget formats as recommended by National Treasury are implemented w.e.f. the 2010/11 financial year, **however, as this is the very first attempt to comply with these requirements it has not been easy to ensure that all is well more so with the limited resources. The Directorate has been granted an authority to acquire an IT system that will assist in compiling these reports, together with other reports such as Section 71, etc.**

1.14. OVERVIEW OF ALLIGNMENT OF ANNUAL BUDGET WITH THE IDP

All efforts have been made to ensure that the budget is aligned with the budget, and in order to achieve an alignment between the two strategic documents the Makana Municipal Council took a decision in 2008 whereby the finance committee was re-designed to be a Budget, Treasury and IDP Portfolio Committee whereby any matter that relates to the IDP will be discussed in this committee. This went to an extent of even ensuring that the Budget and IDP Plans for the forthcoming financial year are prepared jointly by the IDP/PMS Manager and the Chief Financial Officer. The 2010/11 financial year has not been different, however, the only area that need drastic improvement going forward will be compliance by all Directorates with the approved due dates.

1.15. BUDGET RELATED RESOLUTIONS

The final budget resolution will be disclosed or availed when the municipal Council has finally approved the budget on or before end May 2010. For record purposes the recommendations made in the item to Council read as follows: -

- a) "That the Council **APPROVES** the **consolidated** 2010 / 2011 financial year's budget amounting **R326 313 130 (Operating budget) and R69 596 100 (Capital budget), as indicated in Tables A1 to A5 of the New National Treasury Budget Formats (as attached under Annexure "F")** including the two outer years

- b) That the Council **NOTES** that included in the amount of R326 313 130 are all Capex Grants and Receipts receivable in 2010/11 as well as AFF source of funding amounting to R69m as in terms of the new Grap/Gamap requirements (**hence the income is greater than expenditure by R69m**).
- c) That the Council **APPROVES** the recommended tariffs increases as follows: -
- Electricity = 22%
 - Water = 8.5%
 - Rates = 8.5%
 - Sewerage = 8.5%
 - Refuse = 8.5%
- d) That the Council **APPROVES** an allocation amounting to **R508 600 (vote number 10/75/05/6630/000)** payable to Makana Tourism, which will be transferred to the organisation on a quarterly basis (in terms of the Service Level Agreement) as follows: -
- i. Quarter 1 (i.e. July to September 2010) = **R127 150** (payable on 1st July 2010);
 - ii. Quarter 2 (i.e. October to December 2010) = **R127 150** (payable on 1st October 2010);
 - iii. Quarter 3 (i.e. January to March 2011) = **R127 150** (payable on 2nd January 2011); and
 - iv. Quarter 4 (i.e. April to June 2011) = **R127 150** (payable on 1st April 2011)
- e) That the miscellaneous charges / tariffs as indicated in annexure "G" be **APPROVED**.
- f) That the Council **APPROVES** the Asset Disposal and Virement Policies as attached under Annexure "K".
- g) That the Council **NOTES** that for budget purposes salary increments have been budgeted for at **9.5%** whilst awaiting the final communication from SALGA in this regard".

1.16. BUDGET / FINANCIAL RELATED POLICIES

It must be indicated that the Finance Directorate has developed a number of financial related policies and these policies are revised wherever there is a need to do so. Policies such as Credit Control and Debt Management, Indigent Policy, Tariffs Policy, Rates Policy, amongst others are availed to the relevant stakeholders prior being approved by Council. All financial related policies can be accessed in the municipality's website (www.makana.gov.za) and can be located under Finance Directorate's web page. The two policies that are attached to this budget document were recently developed in the current financial year (2009/10) and are being submitted for approval to Council. Those are (i) Asset Disposal Policy and (iii) Virement Policy. The development of a Virement Policy also responds to Circular 51 from National Treasury, as the municipality never had a separate Virement Policy previously. Any enquiries regarding the financial related policies can be forwarded to the Chief Financial Officer either through his e-mail address jngcelwa@makana.gov.za or telephone (046) 603 6007/6130 or fax number (046) 636 2472.

1.17. ADDITIONAL ANNEXURES ATTACHED (Also attached to the Council Agenda)

ANNEXURE “A” (Operating expenditure by vote)

ANNEXURE “B” (Operating revenue by vote and source)

ANNEXURE “C” (Categorised Summary of Operating Budget) and ANNEXURE “C(i)” (Detailed Operating Budget)

ANNEXURE “D” (Detailed Capital Budget by Vote and by Source)

ANNEXURE “E” (Annual Charges, Monthly Charges and Miscellaneous Charges for 2010 / 2011 Financial Year)

ANNEXURE “F” (List of budgeted vacancies)

ANNEXURE “G” (Grants Receivable 2010 / 2011)

ANNEXURE “H” (Schedule of Investments)

ANNEXURE “I” (Financial / Budget related policies – **Only new or revised policies**).

NEW NATIONAL TREASURY DOCUMENTS (Also attached to the Council Agenda)

- a) Table A1 – Budget Summary
- b) Table A2 – Budgeted financial performance (Revenue and expenditure by standard classification)
- c) Table A3 – Budgeted financial performance (Revenue and municipal vote)
- d) Table A4 – Budgeted financial performance (Revenue and expenditure)
- e) Table A5 – Budgeted Capital Expenditure
- f) Table A6 – Budgeted Financial Position
- g) Table A7 – Budgeted Cash Flows
- h) Table A8 – Cash Backed Reserves / Accumulated surplus reconciliation
- i) Table A9 - Asset Management
- j) Table A10 – Service Delivery Questionnaire

The above stated Budget Tables can be further explained as follows: -

BUDGET DOCUMENT	MAIN PURPOSE
1. Table A1 Budget Summary	It is the summary of the Operating Budget in various categories of revenue and

	expenditure.
2. Table A2 – Budgeted Financial Performance	It is the summary of the Operating Budget at a classification level comparing revenue vs. expenditure.
3. Table A2A – Budgeted Financial Performance	Plays the same role as Table A2 and it is used for capturing information that goes to Table A2, hence the two Tables must balance to the same figure or amount at the end.
4. Table A3 – Budgeted Financial Performance	It is the summary of the Operating Budget at a vote level comparing revenue vs. expenditure.
5. Table A3A – Budgeted Financial Performance	Plays the same role as Table A3 (above) and it is used for capturing information that goes to Table A3, hence the two Tables must balance to the same figure or amount at the end.
6. Table A4 – Budgeted Financial Performance	It is the summary of revenue and expenditure using the key line items applicable (e.g. income sources such as Rates, Electricity, Water, etc. which are applicable in all municipalities).
7. Table A5 – Budgeted Capital expenditure by vote, standard classification and funding sources	This table is for tabling the Capital Budget at a vote level, standard classification and also funding sources.
8. Table A5A – Budgeted Capital expenditure by vote, standard classification and funding sources	This table is the same as A5 and is used for capturing information into table A5.
9. Table A6 – Financial Position of the Municipality	The Table demonstrates the financial position of the municipality or calculating the estimated owner's equity or in this case community's wealth (as the municipality belongs to the communities).

10. Table A7 – Budgeted Cashflow	The table depicts a Cashflow position of the municipality and can be used for giving indication of whether municipality operates in a deficit or surplus position.
11. Table A8 – Cash backed reserves / accumulated surplus reconciliation	This table attempts to indicate the financial position of the municipality in terms of its budgeted deficit or surplus after taking into account all reserves that are cash backed.
12. Table A9 – Asset management	This table is the same as the Capex (Table A5) and gives a split of assets to be acquired under various votes.
13. Table A10 – Service Delivery questionnaire	This questionnaire gathers information relating to service delivery under various areas such as electricity, indigent, cleansing, water, sewerage, etc.

1.18. MUNICIPAL MANAGER’S QUALITY CERTIFICATE

I **Ntombi Baart (Ms)**, Municipal Manager of **Makana Municipality**, hereby certify that the **2010/11 to 2012/13 Annual Budget** and supporting documents has been prepared **to the best of our ability in** accordance with the Municipal Finance Management Act No. 56 of 2003 and the regulations made under this Act.

NAME: NTOMBI L BAART (Ms)
MAKANA MUNICIPALITY (EC104)

SIGNATURE:

DATE:

