

KING SABATA DALINDYEBO MUNICIPALITY



BUDGET 2010/11 - 2012/13

March 2010

TABLE OF CONTENTS

	PAGE
Executive Mayor's Budget Statement	5
Budget Resolutions	6
SECTION ONE: BUDGET 2010/11 TO 2012/13	
1.1 Executive Summary	9
1.2 Measurable Performance Objectives and Indicators	11
1.3 MFMA & Related Legislation	11
1.4 Budget Process Overview	15
1.5 Alignment of Budget with the Integrated Development Plan	16
1.6 Budget Strategy & Assumptions	18
1.7 Funding of the Budget	19
1.8 Budget Summary	22
1.8.1 Budgeted Financial Performance	24
1.8.2 Employee Costs	27
1.8.3 Bulk Purchases	30
1.8.4 Repairs & Maintenance	31
1.8.5 Allocations made by Municipality	33
1.8.6 Sources of Funding	35
1.8.7 Provisions	39
1.8.8 Amounts Charged Out	40
1.9 Capital Budget – 2010/11 to 2012/13	40
1.9.1 Capital Budget Summary	41
1.9.2 New Borrowings	45
1.10 Budgeted Financial Statements	46
SECTION TWO: BUDGET RELATED POLICIES	54
SECTION THREE: KEY PERFORMANCE INDICATORS	56
SECTION FOUR: SUMMARY OF CAPITAL PROGRAMME	57

LIST OF TABLES

Table No.	Title	Page
1	Budget Allocation According to IDP Priorities	17
2	Financial Targets	19
3	Budget Summary	22
4	Budgeted Financial Performance by standard classification	24
5.	Budgeted Financial Performance by municipal vote	25
6.	Budgeted Financial Performance by revenue & expenditure	26
7.	Employee related costs to operating revenue	28
8.	Summary of Total Salaries and Allowances	28
10.	Sources of Revenue 2006/07 to 2012/13	35
11.	Income from Subsidies	36
12.	Investment Particulars by Type	38
13.	Investment Particulars by Maturity	38
15.	Capital Expenditure by Vote, Directorate & Funding	42

Table No.	Title	Page
17.	Capital Grants and Subsidies Major Allocations	45
18.	Borrowings	46
19.	Repayment of Borrowing	46
20.	Statement of Financial Position	47
21.	Budgeted Statement of Cash Flows	48
22.	Cash backed Reserves/accumulated surplus Reconciliation	49
23.	Asset Management	50
24.	Basic Service Delivery Measurement	52
25.	Key Performance Indicators	56

EXECUTIVE MAYOR'S BUDGET STATEMENT

[Will be included when the Budget is submitted for final approval to Council on 31 May 2010]

BUDGET RESOLUTIONS

(a) The Executive Mayor recommends that the Council resolves that:

1. The annual budget of the King Sabata Dalindyebo Municipality for the financial year 2010/11 and indicative allocations for the two projected outer years 2011/12 and 2012/13; and the multi-year and single year capital appropriations be approved, in accordance with Section 24 of the Municipal Finance Management Act, 56 of 2003, as set-out in the following tables:
 - 1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) [Page xx]
 - 1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) [Page xx]
 - 1.3 Budgeted Financial Performance (revenue by source and expenditure by type) [Page xx]
 - 1.4 Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source [Page xx]
2. The budgeted financial position, budgeted cash flows and cash-backed reserve/accumulated surplus, asset management and basic service delivery targets be **noted**, as set-out in the following tables:
 - 2.1 Budgeted Financial Position [Page xx]
 - 2.2 Budgeted Cash Flows [Page xx]
 - 2.3 Cash backed reserves and accumulated surplus reconciliation [Page xx]
 - 2.4 Asset Management [Page xx]
 - 2.5 Basic service delivery measurement [Page xx]
3. The draft revised Integrated Development Plan (IDP) be approved as reflected in the agenda.
4. That in terms of section 24(2)(c)(i) and (ii) of the MFMA and section 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000, the tariffs for the supply of electricity, refuse removal and property rates as set out in Annexure A, that were used to prepare the estimates of revenue by source, are noted for approval with effect from 1 July 2010.
5. That in terms of section 5 of the Municipal Property Rates Act 6 of 2004, the proposed amendments to the rates policy as set out in Annexure B be noted.
6. That in terms of section 24(2)(c)(iii) of the MFMA, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SA7 be noted.

7. That in terms of section 24(2)(c)(iv) of the MFMA, the amendments to the integrated development plan as set out in Annexure C be approved
8. That in terms of section 24(2)(c)(v) of the MFMA, the budget related policies including any amendments as set out in Annexure D are approved for the budget year 2010/11
9. The municipality go to the market to raise a new external loan in the amount of R40 million, to finance the Electricity infrastructural development reflected in the 2010/11 capital budget.

1. THE BUDGET 2010-11 TO 2012-13

This section contains an Executive Summary of the King Sabata Dalindyebo Municipality's Budget followed by a more detailed explanation of its Operating and Capital components over the next three years.

1.1 EXECUTIVE SUMMARY

The Budget Process

The 2010/11 to 2012/13 Budget preparation commenced in August 2009 after Council approved a timetable for the IDP and Budget preparation process.

The Budget comprises both Operating and Capital Budgets, which is a requirement of the Constitution and the Municipal Finance Management Act (MFMA).

Sections 1.8 and 1.9, present an overview of the Operating and Capital Budgets respectively, with high level tables, which provide an overall picture of the Municipality's finances. The municipality is gradually moving out of the adverse financial state as it implements its turnaround strategy being the 20 year Mthatha sustainable development plan

One of the objectives of the budget timetable is to ensure integration between the development of the Integrated Development Plan (IDP) and the Budget. The IDP is the strategic plan of the Municipality and it is critical that the Budget enables the achievement of the IDP objectives. Table 1 illustrates the link between the IDP and Budget.

Assumptions

The assumptions and principles applied in the development of this Budget are based upon guidelines received from National and Provincial Treasury, regulatory institutions such as the National Electricity Regulator of South Africa (NERSA), the South African Local Government Bargaining Council SALGA and other major service providers.

The IDP's strategic focus areas informed the development of the Budget, in addition to assessing the relative capacity to implement the Budget, taking affordability considerations into account. The aforementioned guidelines were considered appropriate to inform the development of the Budget.

Operating Budget

The Operating Budget totals R509 million, which funds the continued provision of services provided by the Municipality.

The major expenditure items are employee costs (44%), bulk electricity purchases (19%), general expenses (19%), repairs and maintenance (5%) and depreciation (5%).

Funding is obtained from various sources, the major sources being service charges such as electricity and refuse collection and disposal (34%), property rates (21%), grants and

subsidies received from National and Provincial Governments (30%)

In order to support the 2010/11 Operating Budget, the following increase in rates and service charges have been proposed, with effect from 1 July 2010:

Tariffs	2010/11	2011/12	2012/13
	%	%	%
Property Rates	5.70	6.20	5.90
Electricity	22.00	20.00	18.00
Refuse Removal	10.00	6.20	5.90

A provision of R18 million has been set aside to cover potential bad debts arising from property rates and service charges not collected. This is based upon a level of payment of current debtors' accounts averaging 95%.

The municipality's own revenue base is very limited. The growth in the property market is stunned as a large proportion of the municipal area is rural, with very limited infrastructure that is ageing and dilapidating. Our current operating budget cannot handle the need to address infrastructure maintenance and backlogs. The turnaround process incorporated in the Master Plan is a strategy to address infrastructure rehabilitation needs. This requires substantial cash resources. The presidential intervention is the current solution at this point. In relation to staffing requirements, budget provisions are set aside on an annual basis, in order to fill vacant positions critical to service delivery. The 2010/11 Budget does make provision for increased allocations to deal with the maintenance of infrastructure. The new fleet will be operational which will assist in improving infrastructure maintenance levels.

Free Basic Services

The municipality currently provides and has budgeted for the following benefits to registered indigent households:

- Property Rates (Including Fire Levy): A subsidy, not more than the applicable tariff for the 2010/11 financial year, will be applied for the duration of the 2010/11 financial year.
- Electricity: A subsidy of fifty (50) units of electricity per property per month to registered households will apply. Where the consumption exceeds fifty (50) units per month the consumer will be charged for actual consumption exceeding fifty (50) units at the approved tariff.
- Refuse Removal: A subsidy, not more than the applicable tariff for the 2010/11 financial year, will be applied for the duration of the 2010/11 financial year.
- Site Rental: All registered indigents shall be fully subsidised for the payment of site rental for the 2009/10 financial year, and will be applied for the duration of the 2010/11 financial year

Capital Budget

The Capital Budget totals R96.5million and this is funded mainly through revenue from operations (1%), Government grants (58%) and external loans (42%). Grants and subsidies are mainly the municipal infrastructure grant, the neighbourhood partnership development programme (urban renewal programme) and the integrated national electrification

programme.

The new external loan of R40 million to be raised to support the 2010/11 Capital Budget is needed for the electricity infrastructure rehabilitation programme. The consequential loan servicing costs will need to be considered on future tariff increases.

Budget provisions to assist in attending to the rehabilitation of infrastructure, is also provided for. The full extent of the required rehabilitation of infrastructure, has been determined.

Section 5 provides a summary of the capital projects included in the Capital Budget.

Budget related policies and SDBIP

The Budget related policies as outlined in section 2 have been adhered to in the development of the Budget, whilst continuous monitoring of budget performance is possible through Key Performance Indicators (section 3) and the Service Delivery and Budget Implementation Plan.

1.2 HIGH LEVEL PERFORMANCE OBJECTIVES FOR 2010/11

The more significant performance objectives, which informed the preparation of the Budget, will be included as part of the final budget submission.

1.3 MUNICIPAL FINANCE MANAGEMENT ACT (MFMA) AND RELATED LEGISLATION

Below are the legislative requirements that guide the budget preparation process:

Municipal Structures Act

The Municipal Structures Act (No. 117 of 1998) as amended, under section 56: Functions and Powers of Executive Mayor, states that the Executive Mayor shall-

- “(a) identify the needs of the municipality;
- (b) Review and evaluate those needs in order of priority;
- (c) recommend to the municipal Council strategies, programmes and services to address priority needs through the integrated development plan and estimates of revenue and expenditure, taking into account any applicable national and provincial development plans; and
- (d) Recommend or determine the best methods, including partnership and other approaches, to deliver those strategies, programmes and services to the maximum benefit of the community.”

Legislation also requires municipalities to compile operating and capital budgets on an annual basis. The operating and capital budgets must balance (i.e. may not reflect a deficit) and must be prepared in accordance with the integrated development plan.

Municipal Finance Management Act

Section 16 (2) of the Municipal Finance Management Act No. 56 of 2003, (MFMA) dealing with legislative compliance regarding the tabling of the annual budget states inter alia that:

“.., the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Section 21(1) of the MFMA, which deals with the Budget preparation process, stipulates that the Executive Mayor must-

- “(a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality’s integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;
- (b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for-
 - (i) the preparation, tabling and approval of the annual budget;
 - (ii) the annual review of-
 - (aa) the integrated development plan in terms of Section 34 of the Municipal Systems Act; and
 - (bb) the budget related policies
 - (iii) The tabling and adoption of any amendments to the integrated development plan and the budget related policies; and
 - (iv) Any consultative processes forming part of the processes referred to in sub-paragraphs (i), (ii) and (iii).

The approval of the Budget is regulated by Section 24 of the MFMA, which states as follows-

- (1) The municipal council must at least 30 days before the start of the budget year consider approval of the annual budget;
- (2) An annual budget-
 - (a) must be approved before the start of the budget year;
 - (b) must be approved together with the adoption by the council of the resolutions as may be necessary for-
 - (i) imposing any municipal tax for the budget year;
 - (ii) setting any municipal tariffs for the budget year;
 - (iii) approving measurable performance objectives for each vote in the budget;
 - (iv) approving any changes to the municipality’s integrated development plan; and approving any changes to the municipality’s budget-related policies.”

Below a discussion of the Municipality's progress relating to the implementation of the MFMA:

Implementation of the MFMA

The municipality has been implementing the provisions of the MFMA in accordance with a documented Implementation Plan. The municipality monitors its implementation status on an ongoing basis through reporting via its Committees, including the following:

- The Municipal Manager's Management Team includes all section 57 managers, which meets weekly and attends to MFMA issues requiring attention.
- The Finance and asset management committee – a standing committee of the Council, which meets monthly. The committee considers specific MFMA implementation issues and reports via the Mayoral Committee to Council.
- Meetings between the Municipal Manager, CFO and section 57 managers to discuss MFMA implementation issues, as and when necessary. Issues requiring attention are monitored so that actions are taken to ensure compliance.

The following reflects the status of implementation of some of the key MFMA areas:

IDP

The IDP review process is in progress and a draft 2010/11 IDP has been developed. The IDP includes specific deliverables that forms the basis for the Budget and SDBIP.

Budget

The annual budget document has been developed taking the MFMA and National Treasury requirements into account. Budgets are being tabled and approved within the required legislated timeframes.

Budget Reporting Formats

As part of its budget reforms, National Treasury released a budget formats guide. This budget formats guide has been imposed through Budget and Reporting Regulations, which specifies the required tables to be published with the municipality's budget document.

The objectives of the budget formats reforms are as follows:

- To ensure that municipal budget and financial reporting formats support the other financial management reforms introduced by the MFMA;
- To improve the local government spheres' ability to deliver basic services by –
- addressing issues of financial sustainability; and
- facilitating informed policy choices and medium term planning of service delivery.

- To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy, and reliability of budgets and in-year reports of municipalities and municipal entities.

A description of the purpose and relevance of each budget table is provided further in this report.

SDBIP

The 2010/11 draft SDBIP document has been developed, taking the MFMA and National Treasury requirements into account. This document contains the specific performance measures relating to the IDP objectives, which are incorporated into the Budget. The content of the SDBIP is reflected in the Municipal Manager and the section 57 manager's performance contracts.

Annual Report

The Annual Report has been developed taking the MFMA and NT requirements into account. The 2008/9 Annual Report was tabled on 31 January 2010.

The 2008/9 annual financial statements had some improvement as the municipality moved from a disclaimer to a qualified opinion on the financial statements.

Oversight Report

The Speaker has lead the oversight process for the 2008/9 financial year, which complies with the MFMA and NT guidance with an Oversight Committee. The oversight report is scheduled to be adopted on 31 March 2010.

In-Year Reporting

The municipality submits the various reports required in accordance with the MFMA to the Executive Mayor, Council, and National Treasury on an ongoing basis

Supply Chain Management Policy (SCM)

A Supply Chain Management Policy has been adopted and implemented in accordance with the MFMA and National Treasury guidelines.

All the required committee structures are in place and are functioning. Whilst the municipality is working at making these new processes operate more efficiently and effectively, it is considered that the municipality is currently complying with the MFMA and NT guidelines.

Budget and Treasury

A Budget and Treasury Office has been established in accordance with the MFMA and NT requirements, consisting of a CFO and municipal officials reporting to the CFO.

Audit Committee

The current audit committee's term has ended during the current financial year. It had serious challenges in terms of efficient operations, however, a new committee will be established in the next (2010/11) financial year.

Internal Audit Function

The municipality has an Internal Audit unit reporting to the municipal manager. The unit is yet to be functional. Co sourcing the function has been considered as an option.

1.4 BUDGET PROCESS OVERVIEW

The Budget process started in August 2009 after the approval of a timetable and strategy to guide the preparation of the 2010/11 to 2012/13 operating and capital budgets.

The timetable provided broad timeframes for the IDP and Budget preparation process. It allows for consultation with stakeholders, such as the elected public representatives, ward committees, the community, state departments, the district municipality, business and labour, during April/May 2010.

The consultation will take the form of a series of public meetings in the various wards under the direction and leadership of the Executive Mayor and the Mayoral Committee. After taking into account the inputs of the aforementioned consultations, the Executive Mayor will table the IDP and Budget for final approval at a council meeting to be held on 30 May 2010.

The Service Delivery and Budget Implementation Plan is the mechanism that ensures that the IDP and the Budget is aligned.

1.5 ALIGNMENT OF BUDGET WITH IDP

The Integrated Development Plan (IDP) determines and prioritises the needs of the community. The 20 year Mthatha Masterplan forms the basis of the 5 year IDP and is particularly strong on integration consultation and public participation. The plan provides a comprehensive Spatial Development Framework which sets a basis for integrated implementation in a system approach

The 2010/11 to 2012/13 Operating and Capital Budgets were prepared in accordance with the IDP. The key strategic focus areas of the IDP are as follows:

- Service delivery under conditions of good governance
- Financial Discipline and Viability
- Institutional Development and Transformation
- Local Economic Development
- Good governance and public participation

The abovementioned strategic focus areas informed the preparation of the Budget.

After the tabling of the budget, a series of meetings will be held throughout the municipal area to consult with the elected public representatives. The feedback flowing from these meetings will be referred to the relevant departments for their attention.

Below is a table, which illustrates the link between the Budget and the IDP.

1.6 BUDGET STRATEGY & ASSUMPTIONS

Budget Strategy

The following guidelines were used to compile the 2010/11 to 2012/13 Operating and Capital budgets:

- (a) That the annual increases for the 2010/11 to 2012/13 draft Operating Budget be limited to the following and be reviewed during the process, if considered necessary:
 - The overall increase in operating expenditure be based on the projected CPIX of 6%.
 - The overall increase in employee related costs be aligned to finalized agreement by the SALGBC at 8% and make provision for critical posts to address service delivery targets
 - Increase in bulk purchase of power costs be informed by NERSA 28.9%.
 - Increase in Repairs and Maintenance expenditure be limited to 10% and increase allocations as a priority.
 - Rates and tariff escalations be limited to 6%
 - Electricity Tariff increases be informed by NERSA guidelines finalised at 15.33%
- (b) That the priority and levels of Provisions and Reserves be reviewed, in conjunction with the preparation of the 2010/11 to 2012/13 Operating Budgets.
- (c) That section 57 managers lift up key projects in their respective departments in implementing the 20 year vision
- (d) The presidential intervention programme be driven as a key process in the turnaround strategy.

Budget assumptions

Budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets.

The municipal fiscal environment is influenced by a variety of macro economic control measures. National Treasury provides guidelines on the ceiling of year-on-year increases in the total Operating Budget, and the National Electricity Regulator of South Africa (NERSA) regulates electricity tariff increases. Various government departments also affect municipal service delivery through the level of grants and subsidies.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets in relation to the key strategic focus areas as determined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- An assessment of the relative capacity to implement the Budget.
- No budget allocation has been made to programmes and projects, unless the respective programme and project plans have been submitted by the relevant Directors.
- The need to enhance the municipality's revenue base.

The multi-year budget is therefore underpinned by the following assumptions:

TABLE 2: FINANCIAL TARGETS

	2010/11	2011/12	2012/13
	%	%	%
Revenue			
Property Rates	5.70	6.20	5.90
Electricity	22.00	20.00	18.00
Refuse Removal	10.00	6.20	5.90
Other Revenue	5.70	6.20	5.90
Revenue collection rates	95.00	98.00	98.00
Expenditure			
Salary increase	7.70	7.20	7.70
Electricity Bulk Purchases	28.90	25.80	25.90
Repairs and maintenance	10.00	12.00	12.00
Other Expenditure	5.70	6.20	5.90

1.7 FUNDING OF THE BUDGET

The budget is funded from three major sources:

- Realistic expected revenue from operations (Property rates and service charges)
- Grants and subsidies (cash backed allocations from government)
- Borrowed funds

Fiscal Overview

1.7.1 2007/08 Actual and 2008/09 Projected Financial Performance

The municipality's financial performance and position is gradually improving for the following reasons:

- Budgets are balanced, being funded from the current financial year's revenues
- The municipality operates within its annual budget, as approved by Council.

- The municipality maintains a positive cash and investments position.
- Improved revenue collection rates being achieved.

1.7.1.1 Operating Budget

In the 2008/9 financial year expenditure in the amount of R359 million was fully funded from the municipality's revenues and operational grants. The 2009/10 operating budget is currently at R478 million. The budget was adjusted up by R35 million during the mid year review after the impact of the new valuation roll was known as well as anticipated refunds from VAT were included to be able to accelerate the infrastructure maintenance programme. The projected expenditure for the 2010/11 financial year is R509 million funded from own revenue and operational grants. Operational expenditure is limited to the revenue generated by the municipality as well as the equitable share and other operational grants.

In the 2008/9 financial year the municipality achieved a collection rate of 90% on the revenue billed in that year. This has been maintained in the 2009/10 financial period, with still some challenges from household revenue collections. The projected collection rate is at 95% as measures currently being implemented to collect old household debt and all current billed revenue.

1.7.1.2 Capital Budget

The actual capital budget spending in 2008/9 amounted to R121 million, virtually all of which was funded from National and Provincial Government grants. Only R1 million was funded from own revenue sources. The 2009/10 financial year capital spend is currently at R110 million and projected at R211 million. The major project is the Mthatha stadium which spanned over the two year period and scheduled to be completed in April 2010.

For the 2010/11 budget period capital expenditure is only projected at R96 million. R55 million is funded from government grants and R40 million is an anticipated loan to fund the electrical infrastructure project.

1.7.2 Mid Term Outlook – 2011/12 to 2012/13

Operating Budget

The operating budget amounts to R565 million for the 2011/12 and R626 million for the 2012/13 financial years. The growth is largely exponential and seeks to address the following in addition to the presidential intervention programme yet to be formalised

- Increased spending attributable to addressing basic service delivery and maintenance backlogs in infrastructure.
- Increased spending on employee related costs.
- Increased spending attributable to bulk purchasing costs for electricity
- Increased servicing costs relating to borrowing.

Capital Budget

For the two outer years, 2011/12 to 2012/13, capital spending is projected at R62 million and R56

million respectively.

This only reflect capital spend from conditional grants and does not include the presidential intervention programme which is estimated at R1 billion rand in the medium term. There are processes in place to accelerate this, but until confirmed funding is in place, it will remain in the plans

Loan Debt

The Municipality will continue to fund each financial year's Operating budget with current revenues, but will be required to consider the raising of significant amounts of external loans to fund the Capital budget. New external loans amounting to R40 million are considered for the 2010/11 financial year to support infrastructural spending programmes. The municipality is in the process of having its financial situation analysed for the affordability of the loan.

Financial Ratios

The current and projected financial picture is reflected in the various ratios, monitored by the municipality on a monthly basis. Ratios such as levels of cash, loan debt, debtors to total revenue, etc. – are expected to improve slightly from their current levels over the mid-term outlook of this Budget.

Ongoing issues requiring monitoring and evaluation

The municipality is closely monitoring certain issues that could have a significant financial impact on future budgets. If one or more of them require substantial resources beyond what is included in the mid-term budget, the municipality will have to adjust its spending plans to maintain its financial position. Many of the items listed below could have major and permanent impacts on the operating budget, and would therefore require permanent increases in revenue, or reductions in other services. Consequently, they should be carefully monitored and evaluated:

- Maintenance backlogs in roads, electricity and municipal properties
- Staffing requirements and the impact on the personnel expenditure target;
- Acceptance and implementation of unfunded mandates; e.g. provision of, primary health services, Disaster management and Library Services;
- Improving on current collection rates especially household debt
- Financial implications associated with the raising of external loan financing.

1.8 BUDGET SUMMARY

The aim of the Budget Summary is to 'provide a concise overview of the proposed budget from all of the major financial perspectives (operating expenditure, capital expenditure, financial position and cash flow, and MFMA funding compliance). The table provides a 'snapshot view' of the amounts to be approved by Council within the context of operating performance, resources utilised for capital expenditure, financial position, cash and funding compliance.

Taking the aforementioned budget strategy, assumptions and principles into consideration the 2010/11 to 2012/13 Budget was arrived at as follows: (see next page)

EC157 King Sabata Dalindyebo - Table A1 Budget Summary

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousands									
Financial Performance									
Property rates	57 833	68 432	80 804	104 034	104 807	104 807	117 841	125 147	132 531
Service charges	97 711	100 982	133 607	173 828	172 828	172 828	206 308	244 558	285 776
Investment revenue	924	96	3 110	2 186	2 186	2 186	2 311	2 454	2 599
Transfers recognised - operational	106 891	223 040	119 204	118 835	135 148	135 148	134 222	150 230	165 161
Other own revenue	238 574	317 223	168 420	44 540	63 940	63 940	58 969	62 337	65 843
Total Revenue (excluding capital transfers and contributions)	501 933	709 773	505 145	443 423	478 908	478 908	519 650	584 727	651 909
Employee costs	152 832	166 327	176 538	180 806	188 212	188 212	208 453	223 462	240 668
Remuneration of councillors	-	-	-	14 348	14 348	14 348	15 495	16 611	17 890
Depreciation & asset impairment	25 198	-	-	26 000	26 000	26 000	27 482	29 186	30 908
Finance charges	-	-	-	8 063	8 063	8 063	13 399	14 230	15 069
Materials and bulk purchases	43 921	46 259	54 337	82 825	79 963	79 963	103 071	129 663	163 246
Transfers and grants	-	-	-	-	9 292	9 292	21 488	21 670	22 734
Other expenditure	38 736	91 598	113 034	113 528	164 552	164 552	120 386	140 077	153 973
Total Expenditure	260 687	304 185	343 909	425 570	490 429	490 429	509 774	574 898	644 489
Surplus/(Deficit)	241 246	405 588	161 236	17 853	(11 521)	(11 521)	9 876	9 829	7 421
Transfers recognised - capital	-	-	-	-	-	-	-	-	-
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	(7 282)	(8 684)	(6 188)
Surplus/(Deficit) after capital transfers & contributions	241 246	405 588	161 236	17 853	(11 521)	(11 521)	2 594	1 144	1 232
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the year	241 246	405 588	161 236	17 853	(11 521)	(11 521)	2 594	1 144	1 232

Capital expenditure & funds sources									
Capital expenditure	64 844	129 985	247 971	-	195 522	195 522	99 510	62 779	56 271
Transfers recognised - capital	64 844	125 131	246 722	-	193 374	193 374	55 479	62 779	56 271
Public contributions & donations	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	40 000	-	-
Internally generated funds	-	4 854	1 249	-	2 148	2 148	4 031	-	-
Total sources of capital funds	64 844	129 985	247 971	-	195 522	195 522	99 510	62 779	56 271
Financial position									
Total current assets	211 360	273 070	512 422	178 400	178 400	494 534	272 179	231 096	224 315
Total non current assets	376 256	848 951	1 162 730	704 565	833 853	683 559	782 969	782 957	783 013
Total current liabilities	261 139	274 486	174 588	97 135	97 135	254 983	90 133	80 150	70 990
Total non current liabilities	111 324	10 192	52 820	56 000	56 000	58 498	85 099	70 869	55 800
Community wealth/Equity	215 324	412 994	749 813	737 721	872 136	749 813	749 813	749 813	749 813
Cash flows									
Net cash from (used) operating	117 382	5 409	174 783	189 778	189 778	189 778	141 219	109 456	101 481
Net cash from (used) investing	(44 147)	(28 483)	(121 846)	(193 144)	(193 144)	(193 144)	(99 010)	(62 279)	(55 771)
Net cash from (used) financing	(64 673)	70 761	(40 371)	(2 773)	(2 773)	(2 773)	(13 399)	(14 230)	(15 069)
Cash/cash equivalents at the year end	30 329	78 016	90 582	3 616	3 616	24 623	69 145	102 092	132 733
Cash backing/surplus reconciliation									
Cash and investments available	23 247	70 934	253 547	15 455	15 455	221 587	99 510	62 779	56 271
Application of cash and investments	122 483	173 729	(110 442)	(4 962)	(2 923)	211 204	(75 959)	(82 134)	(93 415)
Balance - surplus (shortfall)	(99 237)	(102 795)	363 989	20 417	18 378	10 383	175 469	144 913	149 686
Asset management									
Asset register summary (WDV)	-	424 349	516 628	-	129 288	129 301	129 301	129 288	129 288
Depreciation & asset impairment	25 198	-	-	26 000	26 000	26 000	27 482	29 186	30 908
Renewal of Existing Assets	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	-	-	-	-	-	-	-	-	-
Free services									
Cost of Free Basic Services provided	73 311	73 311	73 311	73 311	73 311	73 311	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-
Households below minimum service level									
Water:	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-
Refuse:	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000	3 000 000

1.8.1 FINANCIAL PERFORMANCE 2010/11 TO 2012/13

The 'standard classification' refers to a modified Government Finance Statistics (GFS) reporting structure. The aim of the standard classification approach is to ensure that all municipalities approve a budget in one common format, to facilitate comparison across all municipalities.

EC157 King Sabata Dalindyebo - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
Revenue - Standard									
<i>Governance and administration</i>	169 852	175 903	184 654	-	245 313	472 674	-	-	-
Executive and council	201	258	1 536	-	-	-	-	-	-
Budget and treasury office	169 651	175 645	183 118	-	138 494	238 301	-	-	-
Corporate services	-	-	-	-	106 819	234 373	-	-	-
<i>Community and public safety</i>	33 806	18 593	129 741	-	11 830	11 830	-	-	-
Community and social services	16 490	413	557	-	208	208	-	-	-
Sport and recreation	11	17	73 812	-	-	-	-	-	-
Public safety	7 741	5 802	12 121	-	11 622	11 622	-	-	-
Housing	-	-	30 140	-	-	-	-	-	-
Health	9 564	12 360	13 111	-	-	-	-	-	-
<i>Economic and environmental services</i>	22 185	19 155	39 942	-	11 438	11 438	-	-	-
Planning and development	5 713	3 387	1 850	-	8 027	8 027	-	-	-
Road transport	16 472	15 768	38 091	-	3 411	3 411	-	-	-
Environmental protection	-	-	-	-	-	-	-	-	-
<i>Trading services</i>	79 279	100 305	119 065	18 563	152 015	170 578	-	-	-
Electricity	79 279	86 041	101 435	-	152 015	152 015	-	-	-
Water	-	-	-	-	-	-	-	-	-
Waste water management	-	-	-	-	-	-	-	-	-
Waste management	-	14 264	17 629	18 563	-	18 563	-	-	-
<i>Other</i>	-	-	33	36	36	36	-	-	-
Total Revenue - Standard	305 122	313 955	473 435	18 600	420 633	666 557	-	-	-
Expenditure - Standard									
<i>Governance and administration</i>	89 669	138 171	40 506	-	183 080	183 080	-	-	-
Executive and council	19 165	21 857	25 715	-	30 402	30 402	-	-	-
Budget and treasury office	70 505	116 314	14 790	-	101 792	101 792	-	-	-
Corporate services	-	-	-	-	50 886	50 886	-	-	-
<i>Community and public safety</i>	90 526	64 947	175 924	-	56 091	56 091	-	-	-
Community and social services	38 226	9 129	13 796	-	6 968	6 968	-	-	-
Sport and recreation	927	961	73 812	-	-	-	-	-	-
Public safety	34 605	37 934	47 539	-	28 471	28 471	-	-	-
Housing	856	834	17 797	-	-	-	-	-	-
Health	15 912	16 088	22 981	-	20 653	20 653	-	-	-
<i>Economic and environmental services</i>	33 197	34 145	52 979	-	72 609	72 609	-	-	-
Planning and development	3 755	12 994	11 887	-	46 862	46 862	-	-	-
Road transport	29 443	21 151	41 092	-	25 746	25 746	-	-	-
Environmental protection	-	-	-	-	-	-	-	-	-
<i>Trading services</i>	62 016	93 580	90 916	32 244	104 150	136 394	-	-	-
Electricity	60 766	64 163	56 607	-	104 150	104 150	-	-	-
Water	-	-	-	-	-	-	-	-	-
Waste water management	-	-	-	-	-	-	-	-	-
Waste management	1 250	29 417	34 309	32 244	-	32 244	-	-	-
<i>Other</i>	-	-	24	-	-	-	-	-	-
Total Expenditure - Standard	275 409	330 843	360 324	32 244	415 930	448 174	-	-	-
Surplus/(Deficit) for the year	29 713	(16 887)	113 110	(13 644)	4 703	218 383	-	-	-

The purpose of the format in which the budget is presented below, is to enable the Council to enforce a vote in accordance with the municipality's organisational structure, so as to assign responsibility for the revenue and expenditure recorded against these votes to the Municipal Manager and Executive Directors concerned.

Below is a classification of operating revenue and expenditure by 'vote'. A 'vote' is defined as one of the main segments into which a budget of a municipality is divided into, for the appropriation of funds.

Schedule A1Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

EC157 King Sabata Dalindyebo - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
Revenue by Vote									
EXECUTIVE & COUNCIL	201	258	1 536	-	-	-	1 000	-	-
CORPORATE SERVICE	3 141	4 795	3 779	-	3 876	3 876	101	-	-
FINANCE & ASSET MANAGEMENT	60 700	74 066	79 906	-	101 792	101 592	117 141	-	-
PLANNING SOC & EC DEV	9 745	2 922	1 910	-	2 351	4 376	750	-	-
COMMUNITY SERVICE	23 638	28 198	30 376	-	19 104	19 104	19 708	-	-
PUBLIC SAFETY	6 596	41 027	13 043	-	17 695	17 695	17 437	-	-
INFRASTRUCTURE	93 234	94 635	110 124	-	155 845	155 845	176 454	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
Total Revenue by Vote	197 254	245 900	240 675	-	300 663	302 488	332 592	-	-
Expenditure by Vote to be appropriated									
EXECUTIVE & COUNCIL	19 115	21 934	26 114	-	30 402	30 402	31 563	-	-
CORPORATE SERVICE	11 426	21 346	22 772	-	25 700	25 700	35 680	-	-
FINANCE & ASSET MANAGEMENT	-	-	-	-	101 792	101 592	-	-	-
PLANNING SOC & EC DEV	1 935	38 368	16 151	-	12 170	12 170	14 899	-	-
COMMUNITY SERVICE	57 650	46 239	63 794	-	70 338	70 169	75 014	-	-
PUBLIC SAFETY	36 240	43 441	49 726	-	53 123	53 022	57 009	-	-
INFRASTRUCTURE	88 231	84 651	100 484	-	134 092	134 092	164 248	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
Total Expenditure by Vote	214 596	255 981	279 041	-	427 617	427 147	378 412	-	-
Surplus/(Deficit) for the year	(17 341)	(10 081)	(38 366)	-	(126 954)	(124 659)	(45 821)	-	-

The Financial Performance Budget is required to be approved concurrently by revenue source and expenditure type, so as to ensure consistency with annual reporting format requirements. A key aim is to facilitate comparison between the annual results and the original budget, so as to assess performance.

The following table reflect the budgeted financial performance by expenditure and income categories:

Schedule A1Table A4 Budgeted Financial Performance (revenue and expenditure)

EC157 King Sabata Dalindyebo - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
Revenue By Source									
Property rates	57 833	68 432	80 804	104 034	104 807	104 807	117 841	125 147	132 531
Property rates - penalties & collection charges									
Service charges - electricity revenue	78 249	83 500	112 849	151 222	151 222	151 222	184 491	221 390	261 240
Service charges - water revenue	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	12 057	13 047	19 665	18 077	17 077	17 077	18 393	19 534	20 686
Service charges - other	7 405	4 435	1 093	4 529	4 529	4 529	3 423	3 635	3 850
Rental of facilities and equipment	9 064	82	10 120	11 147	11 784	11 784	13 442	14 276	15 118
Interest earned - external investments	924	96	3 110	2 186	2 186	2 186	2 311	2 454	2 599
Interest earned - outstanding debtors	-	10 250	2 147	720	11 586	11 586	16 804	17 845	18 898
Dividends received	-	-	-	-	-	-	-	-	-
Fines	467	1 070	1 531	1 650	1 650	1 650	1 785	1 895	2 007
Licences and permits	5 087	4 065	5 793	6 104	9 104	9 104	9 623	10 219	10 822
Agency services	-	25 000	2 416	23 382	14 382	14 382	15 124	15 805	16 595
Transfers recognised - operational	106 891	223 040	119 204	118 835	135 148	135 148	134 222	150 230	165 161
Other revenue	221 827	276 456	145 913	1 037	14 933	14 933	1 692	1 796	1 902
Gains on disposal of PPE	2 129	300	500	500	500	500	500	500	500
Total Revenue (excluding capital transfers and contributions)	501 933	709 773	505 145	443 423	478 908	478 908	519 650	584 727	651 909
Expenditure By Type									
Employee related costs	152 832	166 327	176 538	180 806	188 212	188 212	208 453	223 462	240 668
Remuneration of councillors				14 348	14 348	14 348	15 495	16 611	17 890
Debt impairment				23 579	30 659	30 659	21 655	26 008	26 280
Depreciation & asset impairment	25 198	-	-	26 000	26 000	26 000	27 482	29 186	30 908
Finance charges				8 063	8 063	8 063	13 399	14 230	15 069
Bulk purchases	43 921	46 259	54 337	82 825	79 963	79 963	103 071	129 663	163 246
Other materials									
Contracted services	1 941	1 668	4 585	2 530	2 584	2 584	2 351	2 497	2 644
Transfers and grants				-	9 292	9 292	21 488	21 670	22 734
Other expenditure	36 795	89 930	108 449	87 419	131 308	131 308	96 380	111 572	125 049
Loss on disposal of PPE				-	-	-	-	-	-
Total Expenditure	260 687	304 185	343 909	425 570	490 429	490 429	509 774	574 898	644 489
Surplus/(Deficit)	241 246	405 588	161 236	17 853	(11 521)	(11 521)	9 876	9 829	7 421
Transfers recognised - capital									
Contributions recognised - capital	-	-	-	-	-	-	-	-	-
Contributed assets							(7 282)	(8 684)	(6 188)
Surplus/(Deficit) after capital transfers & contributions	241 246	405 588	161 236	17 853	(11 521)	(11 521)	2 594	1 144	1 232
Taxation									
Surplus/(Deficit) after taxation	241 246	405 588	161 236	17 853	(11 521)	(11 521)	2 594	1 144	1 232
Attributable to minorities									
Surplus/(Deficit) attributable to municipality	241 246	405 588	161 236	17 853	(11 521)	(11 521)	2 594	1 144	1 232
Share of surplus/ (deficit) of associate									
Surplus/(Deficit) for the year	241 246	405 588	161 236	17 853	(11 521)	(11 521)	2 594	1 144	1 232

2010/11 Statement of Financial Performance - Budgeted Expenditure

Below is a discussion of the expenditure components of the Budgeted Statement of Financial Performance:

1.8.2 Employee Costs

The 2010/11 draft budget provides for an increase of 7.7% based on the SALGA bargaining council three year signed agreement. Additional allocations are mainly on critical posts that are required in improving service delivery mandates.

The budget provision of R208 million on employee costs represents an increase of 9.7% over the 2009/10 budget.

The new staff establishment is still in the process of being approved and the placement process will follow as soon as it is approved.

Personnel costs in the 2010/11 Budget represent 44% of revenue

TABLE 7: PERSONNEL COSTS TO OPERATING REVENUE

	2009/10	2010/11	2011/12	2012/13
Employee costs	% 42	% 44	% 40	% 36

The summary of the annual salaries and allowances for Councillors and Staff are as follows:

TABLE 8: SUMMARY OF TOTAL SALARIES AND ALLOWANCES

EC157 King Sabata Dalindyebo - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration R thousand	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
	A	B	C	D	E	F	G	H	I
<u>Councillors (Political Office Bearers plus Other)</u>									
Salary	8 461	8 900	8 558	10 324	10 327	10 327	11 148	11 839	12 538
Pension Contributions						-			
Medical Aid Contributions						-			
Motor vehicle allowance	1 994	2 722	3 033	3 441	3 438	3 438	3 713	3 943	4 176
Cell phone allowance	140	160	1 243	582	582	582	629	668	707
Housing allowance						-			
Other benefits or allowances	1 326					-	5	5	6
In-kind benefits						-			
Sub Total - Councillors	11 920	11 783	12 834	14 348	14 348	14 348	15 496	16 456	17 427
% increase		(1.2%)	8.9%	11.8%	-	-	8.0%	6.2%	5.9%
<u>Senior Managers of the Municipality</u>									
Salary	3 032	2 072	2 041	5 071	5 071	5 071	5 477	5 817	6 160
Pension Contributions						-			
Medical Aid Contributions		28	4			-			
Motor vehicle allowance	510	269	185	585	585	585	632	671	711
Cell phone allowance		24				-			
Housing allowance		51				-			
Performance Bonus	116	94				-			
Other benefits or allowances		365				-			
In-kind benefits						-			
Sub Total - Senior Managers of Municipality	3 658	2 902	2 231	5 656	5 656	5 656	6 109	6 488	6 871
% increase		(20.7%)	(23.1%)	153.6%	-	-	8.0%	6.2%	5.9%
<u>Other Municipal Staff</u>									
Basic Salaries and Wages	81 444	87 387	91 131	116 558	114 548	114 548	142 265	151 085	159 999
Pension Contributions	7 018	13 649	14 283	15 945	16 073	16 073	17 888	18 997	20 118
Medical Aid Contributions	18 258	10 214	12 207	13 139	13 293	13 293	14 422	15 316	16 220
Motor vehicle allowance	1 643	4 159	7 507	8 208	8 230	8 230	9 101	9 665	10 235
Cell phone allowance	750	847	1 245	788	275	275	908	961	1 018
Housing allowance	9 456	10 031	10 364	12 597	12 695	12 695	13 805	14 661	15 526
Overtime	4 750	8 699	9 118	6 643	5 129	5 129	5 333	5 663	5 997
Performance Bonus	497	-	192	285	147	147	159	168	178
Other benefits or allowances	1 518	15 678	17 400	7 623	12 166	12 166			
In-kind benefits									
Sub Total - Other Municipal Staff	125 335	150 664	163 449	181 786	182 555	182 555	203 880	216 517	229 291
% increase		20.2%	8.5%	11.2%	0.4%	-	11.7%	6.2%	5.9%
Total Parent Municipality	140 913	165 348	178 513	201 790	202 559	202 559	225 484	239 460	253 588

1.8.3 Bulk Purchases

1.8.3.1 Electricity

For the period 1 July 2010 to 30 June 2011, Eskom will increase the municipal tariff for bulk electricity by 28.9%. This will increase bulk electricity purchases from an estimate of R79.9 million to R103 million.

1.8.4 Repairs and Maintenance

The budget for repairs and maintenance has been significantly increased in the 2009/10 financial year during the adjustment budget process. This is maintained through the 2010/11 year to 2013, with the major focus being on the electricity network and roads repairs. A new addition is the new Mthatha multipurpose stadium maintenance budgeted at R5 million. The needs are much higher than this. It is envisaged that with the increased budget and the procurement of the new fleet, repairs to municipal assets should improve considerably.

1.8.4.1 Maintenance Backlogs Electricity network

The quality of electricity services supplied by the KSD Municipality does not comply with National Standards, and must be upgraded in order to meet the expectations of the residents of Mthatha.

The quality of electricity services has deteriorated as a consequence of the following primary reasons:

Overloading:

The overloading of the existing HV, MV and LV electricity networks as a result of:

- a. The increased number of customers connected during the Mthatha electrification program to the KSD electricity network, without upgrading the electricity supply, and

- b. The increased number of commercial operations in the CBD, which have not been coordinated with additional electricity network reinforcing, and
- c. The ongoing change of domestic residences in the CBD to commercial B&B operations without reinforcing the electricity network and
- d. The reduced capacity of the MV and LV networks resulting from the failure of switchgear and cable circuits, which have not been competently repaired and returned to service.
- e. Age of underground cables, the result is that the cable cannot carry its original design loads.

Poor State Of High, Medium And Low Voltage Networks:

The poor condition of the existing HV, MV and LV electricity networks, which have been in service for up to 40 years, with inadequate maintenance and upgrading to meet the increasing demand on the network.

Eskom supply conditions also place a constraint as these networks need to be optimized and balanced. Controlled load shedding must now take place.

Inappropriate Electricity Network Extensions:

The inappropriate recent electricity network extensions which have been introduced in the absence of any approved Electricity System Master Plan based on the KSD Master Plan, and do not provide the required upgrading of the electricity network.

Low Capacity Of The Electricity Department:

The reduced capacity of the KSD Electricity Department, as a result of shortage of technical staff, inadequate vehicles, tools and spare resources as well as a lack of appropriate and / or advanced technical training.

The electricity network presents an emergency in terms of service delivery standards and in terms of public safety. The following actions form part of the turnaround plan but attend to mitigate the risks immediately.

- Defer additional electrical loads until the capacity of the electricity network has been upgraded sufficiently to competently supply the existing electricity demand, by:
- Deferring the present Mthatha electrification program sufficiently to allow the network upgrading to be implemented (estimated 2 years).

- Coordinate all new planning applications for change in land use and new developments with designed electricity network upgrading, and recover the appropriate costs from the applicants.
- Rectify the standard of the Hillcrest substation, to ensure that this new infrastructure can be safely used to supplement the HV and MV electricity network.
- Implement the emergency upgrading program, which has been defined and approved for the electricity network, to ensure the electricity supply can competently meet the immediate demands of existing and planned new customers.
- Complete the Electrical System Master Plan for the electricity network to ensure future capital projects are designed to meet the future growth in Mthatha.
- Resuscitate the defunct Residential Load Management (RLM) project, to ensure that KSD can control the electricity load during Eskom load shedding periods, and obtain the designed financial benefit from the contracted control equipment.
- Upgrade the capacity of the KSD Electricity Department, by recruiting additional technical staff, by purchasing the required vehicle, tools and spares, providing the appropriate technical training and introducing the National standards of planned maintenance and electricity operating procedures.
- Plan for the future upgrading of the electricity network to ensure that the additional estimated 17000 residential customers, and future commercial developments do not again cause poor quality of electricity services in Mthatha.
- Implement the approved Mthatha electrification programs to provide all Mthatha residents with a high quality electricity service.

Legal implications

The National Energy Regulator of South Africa (NERSA) requires certain standards of safety, physical performance and service delivery standards. The April 2009 NERSA audit report highlighted the above mentioned risks and NERSA has instructed the municipality to attend to the concerns in the report with great urgency.

King Sabata Dalindyebo Municipality has appointed Taylor & Associates as the Acting Town Electrical Engineer and by doing so complies with one of the most fundamental requirements of the NERSA-license.

The immediate repair and upgrade work on the Mthatha network amounts to R140 million. The process will take about 3 years.

The most critical repair and upgrade work will cost R40 Million and will take 12 months, depending on the availability of transformers, cables and control equipment. As part of this budget process, approval by council for the application for a loan of R40 million will cover the immediate upgrade to the network is sought.

1.8.5.2 Allocations by the Municipality

The Municipality makes contributions to the SPCA in order to support their operations. The budgeted allocation is R25 000 per month which is R300 000 for 12 months.

1.8.6 Sources of Funding

The Municipality's main source of funding is from property rates, services charges and government grants. The following table identifies the sources of funding for the past financial year 2008/9, the current financial year 2009/10 and the projected budgets for 2010/11 to 2012/13.

EC157 King Sabata Dalindyebo - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Revenue By Source									
Property rates	57 833	68 432	80 804	104 034	104 807	104 807	117 841	125 147	132 531
Property rates - penalties & collection charges									
Service charges - electricity revenue	78 249	83 500	112 849	151 222	151 222	151 222	184 491	221 390	261 240
Service charges - water revenue	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	12 057	13 047	19 665	18 077	17 077	17 077	18 393	19 534	20 686
Service charges - other	7 405	4 435	1 093	4 529	4 529	4 529	3 423	3 635	3 850
Rental of facilities and equipment	9 064	82	10 120	11 147	11 784	11 784	13 442	14 276	15 118
Interest earned - external investments	924	96	3 110	2 186	2 186	2 186	2 311	2 454	2 599
Interest earned - outstanding debtors	-	10 250	2 147	720	11 586	11 586	16 804	17 845	18 898
Dividends received	-	-	-	-	-	-	-	-	-
Fines	467	1 070	1 531	1 650	1 650	1 650	1 785	1 895	2 007
Licences and permits	5 087	4 065	5 793	6 104	9 104	9 104	9 623	10 219	10 822
Agency services	-	25 000	2 416	23 382	14 382	14 382	15 124	15 805	16 595
Transfers recognised - operational	106 891	223 040	119 204	118 835	135 148	135 148	134 222	150 230	165 161
Other revenue	221 827	276 456	145 913	1 037	14 933	14 933	1 692	1 796	1 902
Gains on disposal of PPE	2 129	300	500	500	500	500	500	500	500
Total Revenue (excluding capital transfers and contributions)	501 933	709 773	505 145	443 423	478 908	478 908	519 650	584 727	651 909

Service charges and Property Rates constitute the largest components of the Municipality's revenue. Grants and Subsidies also constitute a major component of total revenue.

Grants and subsidies

Income from subsidies is comprised of the following:

TABLE 11 INCOME FROM SUBSIDIES

DESCRIPTION	2009/10	2010/11	2011/12	2012/13
Grant - Other	-6 874 460	-	-	-
Grant - Prov: Equitable Share	-104 723 000	-127 858 000	-144 365 000	-159 022 000
Grant - Prov: MIG	-1 645 350	-	-	-
Grant - Prov: Other-MSIG	-735 000	-750 000	-790 000	-800 000
Grant - State: Financial Manag	-1 250 000	-1 200 000	-1 450 000	-1 500 000
Grant - YAC Point Umsobomvu	-350 754	-	-	-
Grant income - D.E.D.E.A	-55 150	-	-	-
Grant income - DEDEA	-2 294 399	-	-	-
Grant Income - Devolution of property ra	-2 670 000	-	-	-
Grant income - Disaster -Local Gov. Supp	-560 000	-3 413 539	-3 625 179	-3 839 064
Grant Income - H.I.V.	-60 000	-	-	-
Grant income - Municipal Community Part.	-384 692	-	-	-
Grant income - Municipal Support grant	-555 622	-	-	-
Grant income - Nduli Nature Reserve	-453 829	-	-	-
Grant income - PSED Operating	-2 025 000	-	-	-
Grant income- Fleet	-4 200 000	-	-	-
Grant- Province Fire Station Refurbishment	-2 600 000	-	-	-
Grant -Service Level Agreement	-14 382 000	-15 124 000	-15 805 000	-16 595 000
Human Capital	-1 500 000	-	-	-
IDP Grant Fund - Income	-210 000	-	-	-
Levy - Skills Develoment[SETA]	-1 127 266	-	-	-
Staff Establishment	-1 000 000	-1 000 000	-	-
Subsidy - State - Urban Renewal	-1 000 000	-	-	-
Grand Total	-150 656 522	-149 345 539	-166 035 179	-181 756 064

TABLE 12: INVESTMENT PARTICULARS BY TYPE

INVESTMENT PARTICULARS BY TYPE	Audited Actual	Forecast	Budget Year	Budget Year	Budget Year
	2008/9	2009/10	2010/11	2010/11	2012/13
Investment Type					
DEPOSITS WITH BANKS	93497533	30225000	45000000	45000000	45000000
TOTAL INVESTMENTS	93497533	30225000	45000000	45000000	45000000

TABLE 13: INVESTMENT PARTICULARS BY MATURITY

<u>Name of Institution / Investment</u>	Period of Investment	Type of Investment	Expiry date of Investment	Monetary Value	Interest to be Realised
2009 / 2010 DEPOSITS WITH BANKS	1 - 12 Months	Fixed Term	Various	45000000	675000
2010 / 2011 DEPOSITS WITH BANKS	1 - 12 Months	Fixed Term	Various	45000000	675000
2011 / 2012 DEPOSITS WITH BANKS	1 - 12 Months	Fixed Term	Various	45000000	675000

1.8.7 Provisions

Provision for Doubtful Debts

In accordance with GRAP the probability of certain debtors not paying their rates and service charges must be recognised in a Provision for Doubtful Debts. The provision includes indigent debtors and also takes into account the collection rate. The collection is expected at 95% of current billings.

1.9 CAPITAL BUDGET – 2010/11 TO 2012/13

Below is an overview of the 2010/11 to 2012/13 Capital Budget and Programme.

1.9.1 Capital Budget Summary

Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

EC157 King Sabata Dalindyebo - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
Capital expenditure - Vote									
Multi-year expenditure to be appropriated									
EXECUTIVE & COUNCIL	-	-	-	-	-	-	-	-	-
CORPORATE SERVICE	-	-	-	-	-	-	-	-	-
FINANCE & ASSET MANAGEMENT	-	-	-	-	-	-	-	-	-
PLANNING SOC & EC DEV	-	-	-	-	-	-	-	-	-
COMMUNITY SERVICE	-	-	-	-	-	-	-	-	-
PUBLIC SAFETY	-	-	-	-	-	-	-	-	-
INFRASTRUCTURE	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	-	-	-	-	-	-	-	-	-
Single-year expenditure to be appropriated									
EXECUTIVE & COUNCIL	-	-	-	-	57	57	49	-	-
CORPORATE SERVICE	-	-	-	-	735	735	622	-	-
FINANCE & ASSET MANAGEMENT	-	-	-	-	-	-	768	-	-
PLANNING SOC & EC DEV	-	-	-	-	78	78	9 252	16 500	-
COMMUNITY SERVICE	-	-	14 680	-	8 804	8 804	1 504	-	-
PUBLIC SAFETY	-	-	-	-	338	338	338	-	-
INFRASTRUCTURE	-	-	232 042	-	185 510	185 510	86 977	46 279	56 271
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
0	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total	-	-	246 722	-	195 522	195 522	99 510	62 779	56 271
Total Capital Expenditure - Vote	-	-	246 722	-	195 522	195 522	99 510	62 779	56 271
Capital Expenditure - Standard									
Governance and administration	474	1 230	528	-	792	792	1 466	-	-
Executive and council	-	-	-	-	57	57	60	-	-
Budget and treasury office	474	1 230	528	-	-	-	778	-	-
Corporate services	-	-	-	-	735	735	627	-	-
Community and public safety	26 956	65 732	179 070	-	134 202	134 202	10 839	16 500	-
Community and social services	11 242	19 498	1 157	-	624	624	1 504	-	-
Sport and recreation	300	2 500	102 500	-	120 000	120 000	-	-	-
Public safety	120	-	50	-	338	338	335	-	-
Housing	12 835	33 680	63 183	-	5 060	5 060	9 000	16 500	-
Health	2 459	10 054	12 180	-	8 180	8 180	-	-	-

1.10 Budgeted Financial Statements

EC157 King Sabata Dalindyebo - Table A6 Budgeted Financial Position

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
ASSETS									
Current assets									
Cash	10 213	11 604	30 761	2 600	2 600	40 334			
Call investment deposits	10 947	73 118	93 498	-	-	181 253	99 510	62 779	56 271
Consumer debtors	175 140	176 223	181 316	163 300	163 300	258 623	158 345	153 992	153 720
Other debtors	12 775	10 479	205 142	10 500	10 500	10 706	10 706	10 706	10 706
Current portion of long-term receivables	-	-	-	-	-	-			
Inventory	2 285	1 646	1 705	2 000	2 000	3 618	3 618	3 618	3 618
Total current assets	211 360	273 070	512 422	178 400	178 400	494 534	272 179	231 096	224 315
Non current assets									
Long-term receivables	309	253	199	330	330	163	63		
Investments	26 030	-	129 288	12 855	12 855	-			
Investment property	-	424 349	516 616	-	129 288	129 288	129 288	129 288	129 288
Investment in Associate									
Property, plant and equipment	349 916	424 349	516 616	691 380	691 380	554 096	653 606	653 669	653 725
Agricultural									
Biological									
Intangible			13			13	13		
Other non-current assets									
Total non current assets	376 256	848 951	1 162 730	704 565	833 853	683 559	782 969	782 957	783 013
TOTAL ASSETS	587 616	1 122 022	1 675 152	882 965	1 012 253	1 178 094	1 055 149	1 014 053	1 007 329
LIABILITIES									
Current liabilities									
Bank overdraft	23 944	13 788	-	-	-	-			
Borrowing	-	-	7 891	7 891	7 891	7 891	13 399	14 230	15 069
Consumer deposits	129	286	678	140	140	813	813		
Trade and other payables	204 064	246 876	166 019	71 426	71 426	246 278	75 921	65 921	55 921
Provisions	33 002	13 535	-	17 678	17 678				
Total current liabilities	261 139	274 486	174 588	97 135	97 135	254 983	90 133	80 150	70 990
Non current liabilities									
Borrowing	111 324	10 192	52 820	56 000	56 000	58 498	85 099	70 869	55 800
Provisions	-	-	-	-	-	-	-	-	-
Total non current liabilities	111 324	10 192	52 820	56 000	56 000	58 498	85 099	70 869	55 800
TOTAL LIABILITIES	372 463	284 678	227 408	153 135	153 135	313 482	175 232	151 020	126 790
NET ASSETS	215 153	837 343	1 447 744	729 830	859 118	864 612	879 916	863 033	880 538
COMMUNITY WEALTH/EQUITY									
Accumulated Surplus/(Deficit)	23 919	408 200	615 398	737 721	737 721	615 398	615 398	615 398	615 398
Reserves	191 404	4 795	134 415	-	134 415	134 415	134 415	134 415	134 415
Minorities' interests									
TOTAL COMMUNITY WEALTH/EQUITY	215 324	412 994	749 813	737 721	872 136	749 813	749 813	749 813	749 813

EC157 King Sabata Dalindyebo - Table A7 Budgeted Cash Flows

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts									
Ratepayers and other	263 627	311 694	469 733	374 371	374 371	374 371	365 814	413 698	464 751
Government - operating	-	-	-	-	-	-	134 222	150 230	165 161
Government - capital	-	-	-	187 666	187 666	187 666	99 510	62 779	56 271
Interest	924	3 645	(1 687)	295	295	295	2 311	2 454	2 599
Dividends	-	-	-	-	-	-	-	-	-
Payments									
Suppliers and employees	(132 464)	(311 753)	(294 330)	(364 491)	(364 491)	(364 491)	(447 238)	(505 475)	(572 232)
Finance charges	(14 706)	1 823	1 067	(8 063)	(8 063)	(8 063)	(13 399)	(14 230)	(15 069)
Transfers and Grants	-	-	-	-	-	-	-	-	-
NET CASH FROM/(USED) OPERATING ACTIVITIES	117 382	5 409	174 783	189 778	189 778	189 778	141 219	109 456	101 481
CASH FLOWS FROM INVESTING ACTIVITIES									
Receipts									
Proceeds on disposal of PPE	2 129	654	-	-	-	-	500	500	500
Decrease (Increase) in non-current debtors	-	56	-	(2 753)	(2 753)	(2 753)	-	-	-
Decrease (increase) other non-current receivables	223	-	54	(1 000)	(1 000)	(1 000)	-	-	-
Decrease (increase) in non-current investments	18 345	-	-	-	-	-	-	-	-
Payments									
Capital assets	(64 844)	(29 194)	(121 900)	(189 391)	(189 391)	(189 391)	(99 510)	(62 779)	(56 271)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(44 147)	(28 483)	(121 846)	(193 144)	(193 144)	(193 144)	(99 010)	(62 279)	(55 771)
CASH FLOWS FROM FINANCING ACTIVITIES									
Receipts									
Short term loans	383	-	(36 182)	-	-	-	-	-	-
Borrowing long term/refinancing	10 990	(223)	132	-	-	-	-	-	-
Increase (decrease) in consumer deposits	59	157	392	-	-	-	-	-	-
Payments									
Repayment of borrowing	(76 104)	70 827	(4 713)	(2 773)	(2 773)	(2 773)	(13 399)	(14 230)	(15 069)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(64 673)	70 761	(40 371)	(2 773)	(2 773)	(2 773)	(13 399)	(14 230)	(15 069)
NET INCREASE/ (DECREASE) IN CASH HELD	8 562	47 687	12 567	(6 139)	(6 139)	(6 139)	28 810	32 947	30 641
Cash/cash equivalents at the year begin:	21 767	30 329	78 016	9 755	9 755	30 761	40 334	69 145	102 092
Cash/cash equivalents at the year end:	30 329	78 016	90 582	3 616	3 616	24 623	69 145	102 092	132 733

EC157 King Sabata Dalindyebo - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	2006/7	2007/8	2008/9	Current Year 2009/10			2010/11 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand									
Cash and investments available									
Cash/cash equivalents at the year end	30 329	78 016	90 582	3 616	3 616	24 623	69 145	102 092	132 733
Other current investments > 90 days	(33 112)	(7 082)	33 676	(1 016)	(1 016)	196 964	30 365	(39 313)	(76 462)
Non current assets - Investments	26 030	-	129 288	12 855	12 855	-	-	-	-
Cash and investments available:	23 247	70 934	253 547	15 455	15 455	221 587	99 510	62 779	56 271
Application of cash and investments									
Unspent conditional transfers	19 656	52 256	75 555	15 000	15 000	175 358	15 000	15 000	15 000
Unspent borrowing									
Statutory requirements									
Other working capital requirements	102 827	121 473	(185 997)	(19 962)	(17 923)	35 846	(90 959)	(97 134)	(108 415)
Other provisions									
Long term investments committed	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments									
Total Application of cash and investments:	122 483	173 729	(110 442)	(4 962)	(2 923)	211 204	(75 959)	(82 134)	(93 415)
Surplus(shortfall)	(99 237)	(102 795)	363 989	20 417	18 378	10 383	175 469	144 913	149 686

