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**MAKANA LOCAL
MUNICIPALITY**

**BUDGET REPORT 2011/12 TO
2013/14 (TABLING OF THE FINAL
BUDGET FOR APPROVAL – 6TH MAY
2011)#**

TABLE OF CONTENTS

	<u>Page No.</u>
1.1. Executive Summary and Executive Mayor's Report	3
1.2. Makana Municipality at a Glance	4 – 5
1.3. Municipal Services at a Glance	5 – 6
1.4. Executive Mayor's Budget Speech	6
1.5. Budget Process Overview	6
1.6. Financial Challenges/Constraints/Assumptions	6 - 8
1.7. Grants receivable in the 2011/12 financial year	8 - 10
1.8. Overview of budget related policies	10
1.9. Overview of budget funding	10- 11
1.10. Disclosure of allocations made by the municipality	11
1.11. Salaries and allowances payable to Cllrs and Section 57's And other budget related information	11- 14
1.12. Current overall financial position and liquidity status	14
1.13. Implementation of MFMA and other legislation	15
1.14. Budget related resolutions	15
1.15. Municipal Manager's Quality Certification	15

1.1. EXECUTIVE SUMMARY AND THE EXECUTIVE MAYOR'S REPORT

During the time when we were preparing the 2010 / 2011 (current financial year) financial year's budget we assumed that by the time the 2011/12 financial year's budget is finalized local government elections would have taken place. However, that has not been the case and we are required to finalize our term by approving a final budget for the coming financial year, and hand over the baton to the coming team. During the recent weeks we have embarked on public participation processes in an attempt of listening to the communities around the municipal area.

The National Treasury has availed a budget circular sensitizing us on how the 2011/12 budget must be prepared or considerations that must be borne in mind when the budget is prepared. The issues relating to job creation has been raised more vocally even during the recent public participation processes. We must therefore work even harder in creating conducive environment for ensuring that job creation is a reality. The establishment of cooperatives where it is practically possible must be promoted, in avoiding the situation where the municipality continues to render services that can be rendered using the cooperatives approach.

NERSA has recently made an announcement that electricity tariffs must be increased by at least 20.38% and in cases where municipalities intend to implement tariffs higher than the recommended ones, such municipalities must make a full motivation to NERSA. At this point in time the recommended tariffs are at 20.38%.

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 = R1.45m, year 2 = R1.5m and year 3 = R1.6m**). This allocation is made possible from the Equitable Share allocation.

I would like to express my sincere appreciation to all of you who have made it possible for us to table this final budget to this Special Council and my special thanks to the Budget/IDP Task Team under the guidance of Councilor Stamper for making the mission of presenting a balanced budget to Council a success.

CLLR VG LWANA
EXECUTIVE MAYOR: MAKANA MUNICIPALITY

1.2. 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” 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.

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 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 2009/10 financial year. 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 over 80% as at end June 2010.

Although the municipality's depends financially or in terms of the income is grant funding (e.g. Equitable Share), so far the financial prudence is practiced consistently. It can be confirmed that conditional grants received from National / Provincial spheres of government are utilised for their specific goals (or in terms of the Division of Revenue Act). It can be confirmed as well that funds received from other external sources are invested separately and accounted for through identifiable account / vote numbers (so that their identity is not lost in the system). It can also be indicated that as at end March 2011 the investment portfolio of the municipality amounted to **R81.2m**, and must also disclose that an amount of **R27m** has already been committed to finance certain infrastructural projects identified as urgently required for implementation. The amount of **R27m** is included in the total of **R81.2m**.

1.3. 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. I must indicate though that with effect from 1st January 2011 the Primary Health Care service has reverted back to the Provincial Department of Health (through a process named "provincialisation of Primary Health Care").

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 on financial year basis. The Municipality has 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. At the moment there are negotiations in place for partnering with Amatola Water for the purpose of assisting in the area of water service as a partner.

1.4. 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, and availed to Treasury as is required.

1.5. BUDGET PROCESS OVERVIEW

In August 2010 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 2010. The budget timetable and IDP were circulated to all Directorates, Heads of Departments and were also discussed at 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. In early 2011 a budget circular was received from National Treasury sensitizing municipalities on the local government elections of 2011. At that stage the exact date of the elections was not yet known, however, National Treasury was giving guidance to municipalities on making a decision of (i) whether to use the current Council for the approval of the budget and IDP documents or (ii) for waiting until after the elections and utilize the new structure for the approval of the budget and IDP documents. The advantages and disadvantages were indicated in terms of the National Treasury circular in both instances. Makana council resolved to rather approve the budget prior elections and that meant that the documents must be tabled to council for approval before the 18th May 2011 (i.e. date of local government elections).

1.6. 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 great concern as at the end February 2011 the arrear debt situation was standing at **R170.8m**. 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. As part of the Audit Action Plan for the 2009/10 financial year's audit it has been suggested that a process of data cleansing and meter audit be embarked upon. The audit action plan has been recently approved by Council and a tender has been advertised as the proper analysis of the Debtor's book, indigent register, municipal land parcels, amongst others are being targeted through this project.

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. Assumptions made in compiling this budget include (i) increase salaries by 8%, rates and taxes increased by 9%, electricity increased by 20.38%, sewerage and refuse by 8.5% and also budget for loan repayment starting from 2011/12 financial year.

In summary the main driving costs for this budget are as follows: -

- a. Budgeted vacancies amounting to about R4.9m;
- b. Inclusion of items such as "loan repayment" amounting to R3m for year one;
- c. Increase of Electricity charges through NERSA by 26% (Bulk electricity purchases), whilst the increase in tariffs is capped at 20.38%;
- d. Increase of Bulk Water Purchases (as Department of Water Affairs have been utilizing incorrect tariffs for charging the municipality and the high consumption of water by the municipality which far exceeds the limits) (R3m);
- e. Budget for security of municipal assets amounting R1.6m per annum;
- f. Formalisation of ervens amounting to about R1.5m;
- g. The year-on-year increase on salaries has been provided for at 8% increase across the board, couple by the increase of wards and number of councillors;
- h. Increase in the AFF funded Capex impacts to operational budget in terms of depreciation costs which must be budgeted for against the operating budget.

In terms of the 2011/12 budget vs. 2010/11 the increase is about 12.9% (from R326.3m to R368.4m) and this budget includes all external sources of funding (namely conditional grants and also the loan funding of R50m from DBSA). The municipality resolved during the 2010/11 financial to raise a loan of R50m from the Development Bank of Southern Africa, and it is envisaged that the projects to be undertaken will commence in the 2011/12 financial year.

During the 2010/11 financial year an amount of R1.1m had to be paid to Cape Joint Pension fund resulting from the recent poor economic situation around world. There is also a debate with Department of Water Affairs where there is a claim that as from 2002 the municipality is also amongst those municipalities that

were charged their water tariffs based on incorrect tariffs by DWA. This matter is not yet finalised and is being discussed with the Department.

As part of re-looking at water tariffs there has been a recommendation that water tariffs be implemented in a stepped tariff approach and also cater for tariffs that can be used during the critical periods of drought. In this budget consideration has been made on phasing-in a stepped tariffs approach and the recommended tariffs are as follows: -

RECOMMENDED WATER TARIFFS W.E.F. 1 JULY 2011					
CATEGORY	KILOLITRES	STEPPED TARIFF (NORMAL PERIOD) "R"	STEPPED TARIFF (CRITICAL PERIOD) "R"		
RESIDENTIAL PROPERTIES	0 to 10kl/pm	4.05	5.06		
	11 to 20kl/pm	5.15	6.44		
	21 to 30kl/pm	5.67	7.08		
	31 to 40kl/pm	6.23	7.79		
	41 to 50kl/pm	6.85	8.57		
	+51kl/pm	7.54	9.43		
BUSINESS AND INDUSTRIAL PROPERTIES	0 to 10kl/pm	4.05	5.06		
	11 to 20kl/pm	5.41	6.76		
	21 to 30kl/pm	5.95	7.44		
	31 to 40kl/pm	6.54	8.18		
	41 to 50kl/pm	7.20	9.00		
	+51kl/pm	7.92	9.90		
NB: (i) Critical periods will be based on the Dam Levels such as when Howisonspoort is less than 30% the situation will be critical and Engineering will alert Finance in order to alter tariffs. (ii) All other properties not listed amongst the above categories will be categorised under Residential Properties. (iii) The reason for having the same tariffs for both residential and business properties consuming less than 10kl/pm is to encourage businesses to save water consumption.					

The current escalating petrol price which is impacted by external factors such as the increase in the Brent crude oil is of great concern, as this will have direct impact in our budget and the ability to pay for services by our accountholders.

1.7. GRANTS RECEIVABLE IN THE 2011/12 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 2011.

Figure: 1.7.1 GRANT FUNDING – 2011 / 2012 (As per Division of Revenue Act)

TYPE OF GRANT	2010 / 2011 ALLOCATION (As per Municipal Financial Year)	2011 / 2012 ALLOCATION (As per Municipal Financial Year)	2012 / 2013 ALLOCATION (As per Municipal Financial Year)	2013 / 2014 ALLOCATION (As per Municipal Financial Year)	Page Number of the DOR Act
Equitable Share	R53 620 000	R59 143 000 (Incl R1 684 000 for Cllrs remuneration)	R65 410 000 (Incl R1 779 000 for Cllrs remuneration)	R69 677 000 (Incl R1 882 000 for Cllrs remuneration)	28 and 301
Financial Management Grant	R1 200 000	R1 450 000	R1 500 000	R1 500 000	178
Municipal Systems Improvement Grant	R750 000	R790 000	R800 000	R850 000	178
Municipal Infrastructure Grant	R20 213 000	R24 312 000	R29 560 000	R31 185 000	201
National Electrification Grant	R7 410 000	R0	R0	R0	221
Integrated National Electrification Grant (through Eskom or not to be paid to Makana LM)	R236 000	R4 236 000	R1 693 000	R2 695 000	254
Neighborhood Development Partnership	R20 000 000 (IG) and R1 000 000	R15 000 000 R500 000	R18 000 000	R13 071 000	Per letter from NT

Grant	(TAG)	(TAG)			265
Expanded Public Works Programme (Incentive Grant to meet projects)	R0	R536 000	R0	R0	277
TOTAL	R104 429 000	R105 967 000	R116 963 000	R118 978 000	

1.8. 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 year, and the 2011/12 budget preparation will not be different to other years. Already the Supply Chain Management Policy, Assistance to the Poor / Indigent Policy, Subsistence and Travelling, Write-off Policy, have been reviewed and been tabled to Council or other structures of council. The crucial policy that requires the final approval of Council is the Property Rates Policy, which is attached as a separate Annexure to the item for approval of the IDP and Budget. This policy has been publicised and availed to other key stakeholders for comments during the month of April 2011. Comments received came from the Albany Bathurst Farmer's League (ABFL) and forwarded to the municipality's legal advisors. Approved financial related policies are loaded in the municipality's website as well.

1.9. 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 (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. As mentioned previously the municipality has raised a loan of R50m (20 year loan) in order to fund the requirements in the area of Water

Infrastructure and the loan has been raised with the Development Bank of Southern Africa (DBSA).

The escalating increase in the debtor's situation is worrying more so when the government departments are also owing the municipality a sizeable amount. The debt collection rate as at end June 2010 was about 81% which indicates that for every R1 billed there's a likelihood that R0.19c will not be collected and this assumption was used in providing for a working capital (provision for bad debts). As mentioned previously the municipality will be embarking in a process of Data Cleansing and Meter Audit after which Debt Collectors will be appointed.

1.10 DISCLOSURE OF ALLOCATIONS MADE BY THE MUNICIPALITY

Makana Municipality has an 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 monthly 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. Makana Tourism has been allocated an amount of R559 600 in the 2011/12 financial year from R508 600 (2010/11) an increase of 10%.

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

The assumptions made on increasing salaries and allowances have been fixed at an increase of **8%** for everyone within the institution including Councillors allowances and also allowances payable to Section 57 employees. 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 (2011/12)

Category	Salary per annum	Transport Allowance (p.a.)	Cellphone Allowance (p.a.)	Performance Bonus	Total
1 x Municipal Manager	892 855	157 021	14 277	148 981	1 213 134
5 x Directors	3 372 355	642 335	53 595	569 560	4 637 845
TOTAL	R4 265 210	R799 356	R67 872	R718 541	R5 850 979

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

Figure 1.11.2. Budgeted Salaries and allowances for Councillors

BUDGETED COUNCILLOR'S ALLOWANCES - 2011 / 2012 (INCREASED BY 8%) "Annexure I"				
CATEGORY	SALARY (PA)	TRANSPORT ALLOWANCE (PA)	CELLPHONE ALLOWANCE (PA)	TOTAL (PA)
1 x Executive Mayor	472,033	157,345	38,838	668,217
CATEGORY TOTAL	472,033	157,345	38,838	668,217
1 x Speaker	207,695	69,231	12,097	289,023
5 x Portfolio Chairpersons	1,770,120	590,042	96,957	2,457,119
21 x Other Councillors	2,973,802	991,252	254,039	4,219,092
CATEGORY TOTAL	4,951,616	1,650,525	363,093	6,965,234
GRAND TOTAL	5,423,650	1,807,870	401,931	7,633,451

The total Draft Operating Income (at Directorate level) is as follows: -

Figure 1.11.4(a) Draft Operating Income by Directorate level

Votes	Medium Term Revenue & Expenditure Framework				
	2010/2011 Approv. Budget R	2011/2012 Budget Year R	Year-to-Year Increase / (Decrease) %	2012/2013 Budget Year+1 R	2013/2014 Budget Year+2 R
Mayoral Executive	146 740	183 020	25%	202 410	218 603
Municipal Council					
Municipal Manager's Office	1 850 000	1 600 000	-14%	1 728 000	1 866 240
Budget & Treasury Office	54 253 360	54 977 970	1%	59 376 208	64 126 304
Technical Services	172 123 490	213 782 100	24%	230 879 920	245 974 892
Community & Social Services	26 173 710	24 074 740	-8%	26 000 719	28 080 777
Corporate Services	1 935 480	2 163 210	12%	2 336 267	2 523 168
Local Economic Development	234 250	0	-100%	0	0
Capital Funding	69 596 100	71 636 750	3%	97 294 400	66 493 350
TOTAL FOR VOTES	326 313 130	368 417 790	12.9%	417 817 924	409 283 333

Figure 1.11.4(b) Draft Operating Expenditure by Directorate level

Votes	Medium Term Revenue & Expenditure Framework				
	2010/2011 Approv. Budget R	2011/2012 Budget Year R	Year-to-Year Increase / (Decrease) %	2012/2013 Budget Year+1 R	2013/2014 Budget Year+2 R
Mayoral Executive	1 580 450	1 965 800	24%	2 123 064	2 292 909
Municipal Council					
Municipal Manager's Office	8 527 650	10 309 730	21%	11 134 508	12 025 269
Budget & Treasury Office	15 352 420	18 050 580	18%	19 494 626	21 054 197
Technical Services	151 135 510	176 637 160	17%	190 768 133	202 654 162
Community & Social Services	56 432 210	61 143 840	8%	66 035 347	71 318 175
Corporate Services	18 945 730	21 956 550	16%	23 713 074	25 610 120
Local Economic Development	4 743 060	6 717 380	42%	7 254 770	7 835 152
TOTAL FOR VOTES	256 717 030	296 781 040	15.6%	320 523 523	342 789 983

The summary of the capital budget can be summarised as follows: -

Figure 1.11.5(a) Draft Capital Budget (at a glance)

Votes	Medium Term Revenue & Expenditure Framework				
	2010/2011 Approv. Budget R	2011/2012 Budget Year R	Year-to-Year Increase / (Decrease) %	2012/2013 Budget Year+1 R	2013/2014 Budget Year+2 R
Mayoral Executive	30 000	170 000	467%	0	0
Municipal Council	38 000				
Municipal Manager's Office	114 500	11 000	-90%	0	0
Budget & Treasury Office	450 000	1 550 000	244%	1 570 000	80 000
Technical Services	40 545 380	93 418 050	130%	74 703 400	51 934 850
Community & Social Services	7 529 970	9 972 700	32%	2 800 500	1 351 000
Corporate Services	694 000	1 405 000	102%	220 500	56 500
Local Economic Development	20 194 250	15 450 000	-23%	18 000 000	13 071 000
TOTAL FOR VOTES	69 596 100	121 976 750	75%	97 294 400	66 493 350

Figure 1.11.5(b) Draft summarised Capital Budget (by Source of Funding)

FUNDING SOURCES - CAPITAL BUDGET					
AFF	33,472,300			51,212,400	23,796,600
GRANTS:					
MIG	23,164,450			28,082,000	29,625,750
MSIG	340,000			-	-
NDPG	15,000,000			18,000,000	13,071,000
DBSA LOAN	50,000,000			-	-
	121,976,750			97,294,400	66,493,350

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. As previously indicated the municipality is in a position of accounting for funding that is financed externally, such as conditional grants, and others.

In demonstrating the ability of the municipality to exercise financial controls the municipality has been awarded a reasonable rating by the international rating agent Moody's and as well in the Council meeting of December 2010 an amount of about R27m was allocated to address certain infrastructural requirements from matured investments and the capital budget was adjusted with this amount.

The municipality has been able to settle a claim of R1.1m from Cape Joint Pension fund which resulted from the fund's condition whereby member municipalities are required to contribute in a case where the fund has performed poorly due to external economic conditions. This is the predicament that many municipalities found themselves in as far as this fund is concerned from May/June 2010.

Lastly, the municipality always endeavour to settle its creditors within the legally required period of 30 days of receipt of invoice, not unless there is some issue that is unresolved between the creditor and the respective receiving department (of goods or services). The municipality has not failed in paying its key customers such as ESKOM/Telkom or even Employee's salaries and statutory payments (e.g. PAYE/Tax / UIF/ etc.).

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 and human resources. The municipality has managed to implement Grap/Gamap requirements with effect from the 2008/09 through acquiring services of a consulting firm that specialises in this field. The project is partly funded from the Financial Management Grant. During the current financial year

(2010/11) the municipality is working on complying with GRAP17 in order to meet the deadline of the 2010/11 financial year, whereupon all municipalities are required to comply with this requirement.

1.14. BUDGET RELATED RESOLUTIONS

The final budget resolution forms part of the actual item to Council for the approval of the IDP and Budget documents for 2011/12 financial year.

1.15. MUNICIPAL MANAGER'S QUALITY CERTIFICATE

I, N.L. Baart (Ms), Municipal Manager of Makana Municipality, hereby certify that the Annual Budget (2011/12 to 2013/14) and supporting documents have been prepared to the best of our ability in accordance with the Municipal Finance Management Act and the regulations made under this Act.

NAME: N.L. BAART (Ms)
MAKANA MUNICIPALITY (EC104)

SIGNATURE:

DATE: