

# Senqu Municipality

## Adjustment Budget 2011/12 - 2013/14

Adjusted Medium Term Revenue  
and Expenditure Framework

# Table of Contents

Table of Contents .....	2
Glossary .....	3
PART 1 - ANNUAL BUDGET .....	5
Section 1 - Mayor's Report .....	5
Section 2 - Budget Related Resolutions .....	18
Section 3 - Executive Summary .....	19
Section 4 - Adjustment budget tables .....	23
PART 2 - SUPPORTING DOCUMENTATION .....	24
Section 5 - Measurable performance objectives and indicators .....	24
Section 6 - Budget related policies .....	24
Section 7 - Overview of budget assumptions .....	24
Section 8 - Funding compliance .....	24
Section 9 - Overview of budget funding .....	24
Section 10 - Expenditure on allocations and grant programmes .....	27
Section 11 - Allocations and grants made by the Municipality .....	27
Section 12 - Councillor allowances and employee benefits .....	28
Section 13 - Monthly targets for revenue, expenditure and cash flow .....	28
Section 14 - Adjustments to the quarterly service delivery and budget implementation plans - internal departments .....	29
Section 15 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms .....	29
Section 16 - Contracts having future budgetary implications .....	30
Section 17 - Capital expenditure details .....	31
Section 18 - Municipal Manager's quality certification .....	31

# Glossary

**Adjustments Budget** - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** - Money received from Provincial or National Government or other municipalities.

**Budget** - The financial plan of the Municipality.

**Budget Related Policy** - Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

**Capital Expenditure** - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

**Cash flow statement** - A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

**DORA** - Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

**Equitable Share** - A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** - Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GFS** - Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GRAP** - Generally Recognised Accounting Practice. The new standard for municipal accounting.

**IDP** - Integrated Development Plan. The main strategic planning document of the Municipality

**KPI's** - Key Performance Indicators. Measures of service output and/or outcome.

**MFMA** - The Municipal Finance Management Act - No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

**Net Assets** - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

**Operating Expenditure** - Spending on the day to day expenses of the Municipality such as salaries and wages.

**Rates** - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

**SDBIP** - Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** - The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Unauthorised expenditure** - Generally, spending without, or in excess of, an approved budget.

**Virement** - A transfer of budget.

**Vote** - One of the main segments of a budget. In Senqu Municipality this means at function level.

# PART 1 - ANNUAL BUDGET

## Section 1 - Mayor's Report

It is with great pleasure that I present the 2011/2012 Adjustment Budget to the Council for approval.

I am specifically pleased to announce that our budget now materially complies with the latest budget regulations as well as the requirements of the National Treasury, for which I must thank the Chief Financial Officer and his staff for the tremendous effort. In mentioning this, I must also make specific mention that Senqu Municipality is one of only 20 municipalities in South Africa which complies fully with all the monthly reporting requirements prescribed by die Regulations. I believe this is an achievement to be proud of and also is an indication of the financial discipline exercised by this Council and its management and staff.

As can be seen later in this budget submission, the Senqu Municipality's financial position is sound and again I must emphasise the discipline exercised by all in achieving and maintaining this position. In addition we have recently received another unqualified audit opinion from the Auditor-General despite the enormous exercise of implementing all the requirements of Generally Recognised Accounting Practises (GRAP) and I must thank all the staff involved in this exercise. I think the unqualified audit opinions achieved by this municipality were the catalyst and the benchmarks for the other municipalities in the Joe Gqabi District to also achieve similar results and may I congratulate our neighbouring municipalities, including the Joe Gqabi District Municipality, with the tremendous improvement in their audit opinions, to such an extent that the representative of the Auditor-General's head office in Pretoria described the municipalities in this district as the "flagship region of the Eastern-Cape".

The Council's strategic objective of service delivery includes the continuation of the acceptable levels of service as well as the improvement in those areas where it lacks acceptable levels. The balancing act is to achieve these objectives with available financial resources, and to always consider the effect of tariff adjustments on the community at large, and specifically the poor.

An adjustments budget may be considered by the Council under certain criteria set out in Section 28 of the Municipal Finance Management Act. The adjustments budgets tabled today is as a result of a review of the revenue and expenditure for the first six months of the year as well as additional funding obtained and also to incorporate unspent grants at the end of the 2011 financial year and rolled-over to this financial year. At the time of compiling the 2012 budget these unspent amounts could not reasonably have been foreseen.

The main adjustments proposed in this adjustments budget are:

### Operating Budget

- 1) An increase of R2,9m in our Electricity Sales due to a decrease in Electricity losses. Over the past two years the municipality invested substantially in reducing the electricity losses which, in 2009/2010 were close to 40% and dropped to 26% in 2010/2011 and it is estimated that this percentage will drop to 15% in the current financial year. Not only does this reflect a huge cost saving, but it also increase revenue and the importance of proper asset management is clearly reflected in this strategic exercise of the municipality, and I urge all to continue on this positive outcome, also with regards to other services;
- 2) An increase in Interest on Investments of R1,6m due to improved Cash Management and Investment practises. For the rest of the year it seems as if interest rates will remain constant and for that reason our projection is fairly accurate;
- 3) An amount of R7,5m was allocated by Province for the Hillside 1000 Housing project. Senqu Municipality acts as the Account Administrator for the department and transfers depend on progress with the project. It is budgeted as if the full amount will be spend;
- 4) An increase of R10m for the Musong Road project as the municipality received all grant funding to complete the project;
- 5) Unspent grants as at 30 June 2011 to the amount of R23,5m have been rolled over to the current financial year. The largest portions of these unspent grants are R10m for housing projects and R7,2m for neighbourhood developments.
- 6) The Joe Gqabi Economic Development Agency (JoGeda) is now officially in operation and a Board of Directors and a Chief Executive Officer have been appointed. Council resolved, in terms of an agreement between the Local municipalities and the District municipalities to make a contribution of R1m over the Medium Term Revenue and Expenditure Framework period to JoGeda to assist with the operating cost in this establishment phase, of which the first transfer payment of R334 000 will be made in the current financial year.

The nett effect from these adjustments is that the projected surplus for the year, after capital grants revenue, decreased from R31,6m to R30,9m. These adjustments also influence cashflows, with the nett cashflow reducing from a positive of R3m to a negative cashflow of R20,2m, after capital expenditure of R41m have been incurred and after appropriation of the unspent grants of R23,5m as indicated in point 5 above.

**Capital Budget**

The expected investment in infrastructure remains high, to such an extent that current cashflows cannot sustain it and are we forced to utilise previously accumulated cash reserves to fund part of the projects. However, the municipality believes it is strategically important to invest timely in infrastructure to cater for the need to extend service delivery across the region.

The main changes to the capital budget are as follows:

- 1) An increase of 8,6m to complete the Khwezi Stormwater project.
- 2) An additional R9,4m to be spend on the Sterkspruit Taxi Rank in order to complete the project. I am extremely glad for this opportunity as this taxi rank project was dormant for quite a long time;
- 3) In order to complete the projects above and to avoid downscaling of the projects funds have been transferred from the Access Roads projects, the Transwilger Bridge project and the Cemeteries project. These projects will be completed at a later stage.

The revised forecasted expenditure can be summarised as follows: (R 000)

TYPE	2011/2012	2012/2013	2013/2014
Operating	164 315	126 027	134 772
Capital	41 058	44 369	46 273
<b>TOTAL</b>	<b>205 373</b>	<b>170 396</b>	<b>181 045</b>

### Funding and Cashflows

The budget indicates a nett outflow of R20,2m after capital expenditure of R41m have been incurred. Provision for debt impairment of R5,2m and depreciation of R13m have been taken into account as well as expenditure of R23,5m out of unspent grants.

I am especially pleased to report that the municipality's cash position is sufficient to cover the requirements of the Funding and Reserves Policy, with the Employee Benefits Reserve being fully funded (R10,9m) as well as a contribution to the Valuation Reserve of R0,7m. In line with the policy the contribution to- and balance of the Capital Replacement Reserve is also sufficiently funded to the amount of R69,5m. This is also in line with the requirements contained in the latest circular number 58 from National Treasury.

The expected Cash flows for the MTREF period are as follows - R,000

Source	2011/2012	2012/2013	2013/2014
Generated Operating inflows	21 488	42 102	54 411
Nett Financing outflows	(689)	(1 172)	(1 290)
<b>Net cash inflows</b>	<b>20 779</b>	<b>40 930</b>	<b>53 122</b>
Outflows - Investment in Assets	(41 058)	(44 369)	(46 273)
<b>Net inflows / (outflows)</b>	<b>(20 258)</b>	<b>(3 425)</b>	<b>6 849</b>

I believe we have done all in our power to address service delivery requirements within our financial means and would like to thank our community for their inputs into the I.D.P. process, my fellow Councillors for their continued hard work and support as well as the Municipal Manager and all his staff for their efforts.

### Unforeseen and unavoidable expenditure

There was no unforeseen expenditure approved by the Mayor and incorporated into this adjustment budget since the original approved budget.



## Changes to allocations and grant adjustments

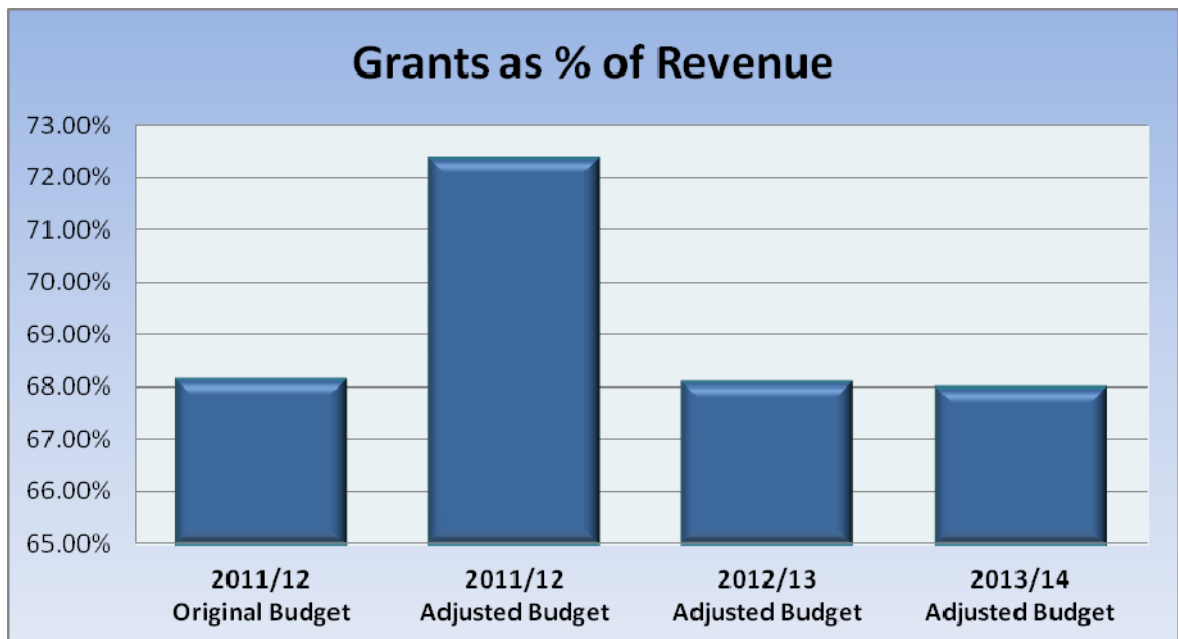
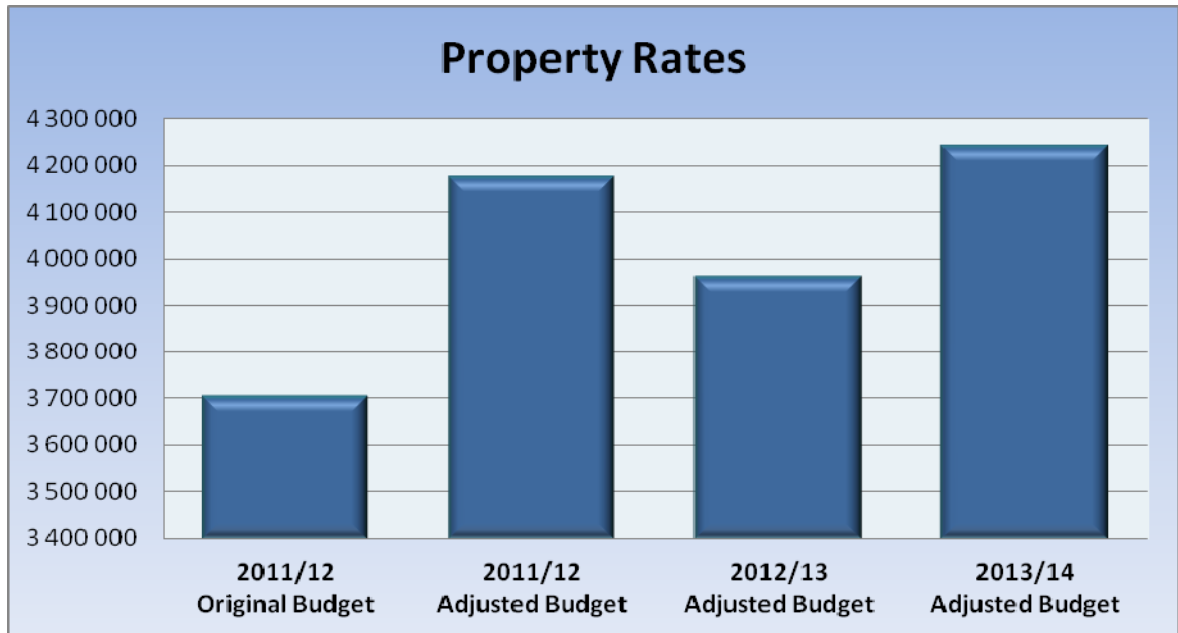
Changes to allocations and grant adjustments are reflected in the attached budget supporting documentation forms SB7 and SB8.

The adjustments for the financial year are as follows:

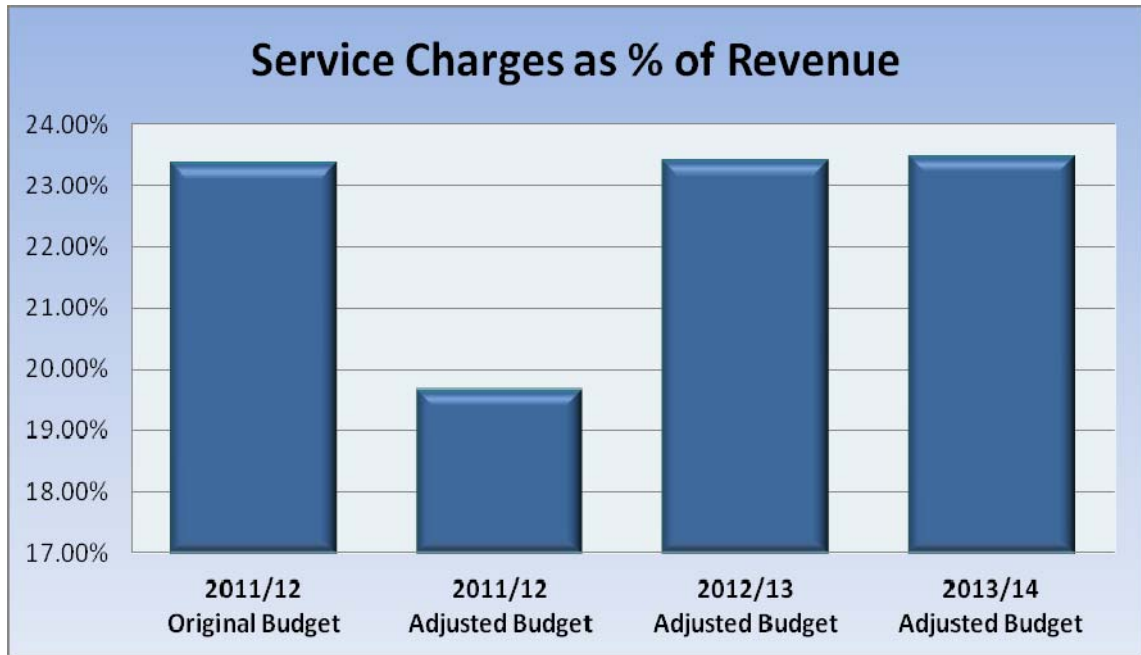
Description	Ref	Budget Year 2011/12			
		Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget
R thousands					
<b>EXPENDITURE ON TRANSFERS AND GRANT PROGRAM:</b>					
<u>Operating expenditure of Transfers and Grants</u>					
<b>National Government:</b>		<b>86 935</b>	<b>7 136</b>	<b>7 136</b>	<b>94 071</b>
Equitable share		76 965	–	–	76 965
Finance Management		1 450	–	–	1 450
Nat Gov: Neighbourhood Dev Partners		2 900	7 196	7 196	10 096
Nat Gov: Councillor Remuneration		2 226	–	–	2 226
Municipal Systems Improvement		790	–	–	790
Municipal Infrastructure (MIG)		1 155	(60)	(60)	1 095
Nat Gov: EPWP Incentive Grant		1 449	–	–	1 449
<b>Provincial Government:</b>		<b>2 676</b>	<b>28 363</b>	<b>28 363</b>	<b>31 039</b>
Prov Gov: Housing - Hillside 1 000		–	7 500	7 500	7 500
Prov. Gov: Housing		–	10 092	10 092	10 092
Prov Gov: Revitalization of the second economy intervention		–	107	107	107
Libraries		676	–	–	676
Prov Gov: Musong Road		2 000	10 149	10 149	12 149
Internet/Communication Systems		–	–	–	–
<b>District Municipality:</b>		<b>–</b>	<b>207</b>	<b>207</b>	<b>207</b>
<i>Joe Gqabi DM - District Call Centre</i>		–	87	87	87
<i>Municipal Support Programme</i>		–	62	62	62
<b>Total operating expenditure of Transfers and Grants:</b>		<b>89 611</b>	<b>35 706</b>	<b>35 706</b>	<b>125 317</b>
<u>Capital expenditure of Transfers and Grants</u>					
<b>National Government:</b>		<b>21 947</b>	<b>60</b>	<b>60</b>	<b>22 007</b>
Municipal Infrastructure (MIG)		21 947	60	60	22 007
<b>Provincial Government:</b>		<b>–</b>	<b>84</b>	<b>84</b>	<b>84</b>
Internet/Communication Systems		–	84	84	84
<b>Total capital expenditure of Transfers and Grants</b>		<b>21 947</b>	<b>144</b>	<b>144</b>	<b>22 091</b>
<b>Total capital expenditure of Transfers and Grants</b>		<b>111 558</b>	<b>35 850</b>	<b>35 850</b>	<b>147 408</b>

## Supporting Information

The results of the adjustments budget, as well as projections for the next 2 years, are for information reflected in the graphs below:

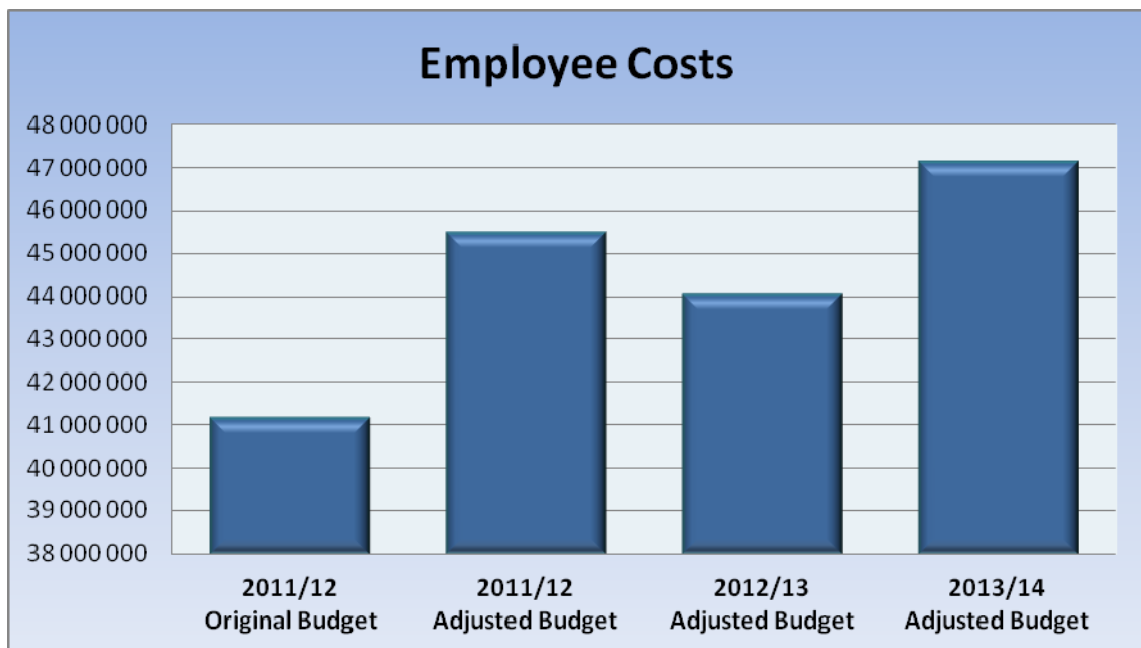


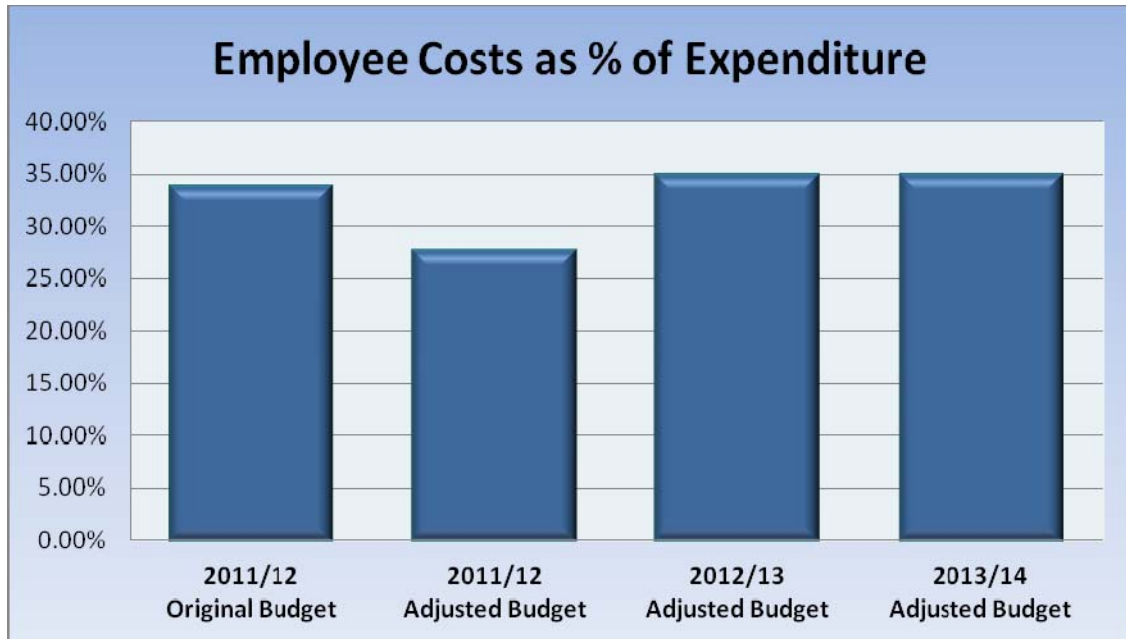
As can be seen from the graph above the municipality is to a very large degree dependent on grants to sustain the budget. This is mainly as a result of the high unemployment rate in the area and focus on job creation should be a priority.



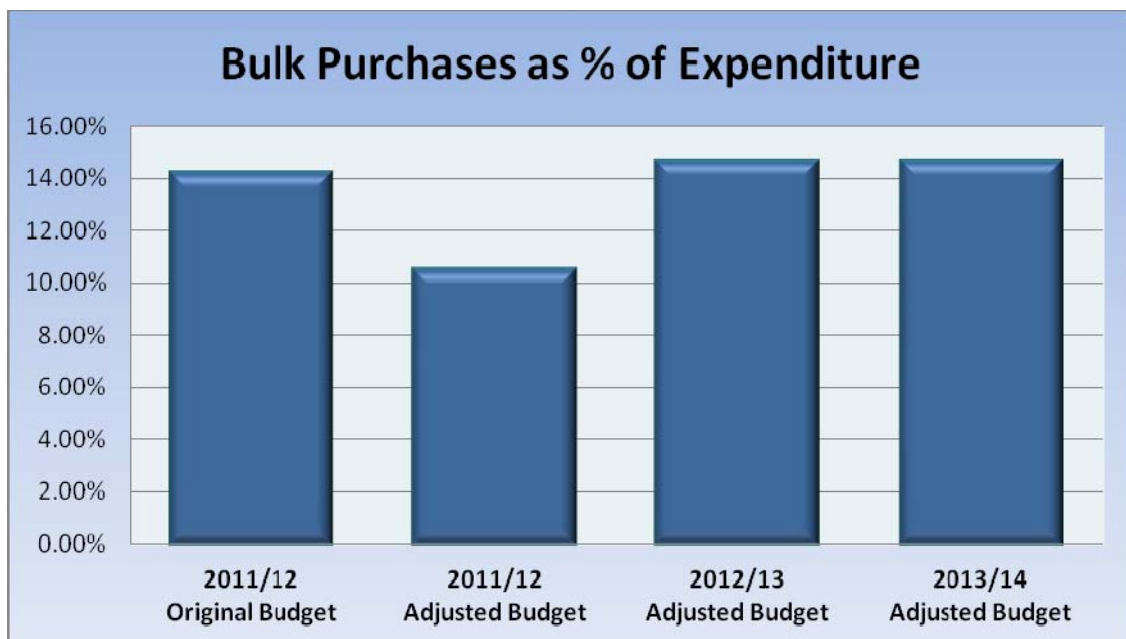
The decrease as indicated above is as a result of increased grant revenues in the current and outer years. For the current year it is mainly as a result of the unspent grants now being recognised as revenue. I must also focus attention on the fact that revenue foregone through assistance and rebates to the elderly and indigents amounts to R13,6m.

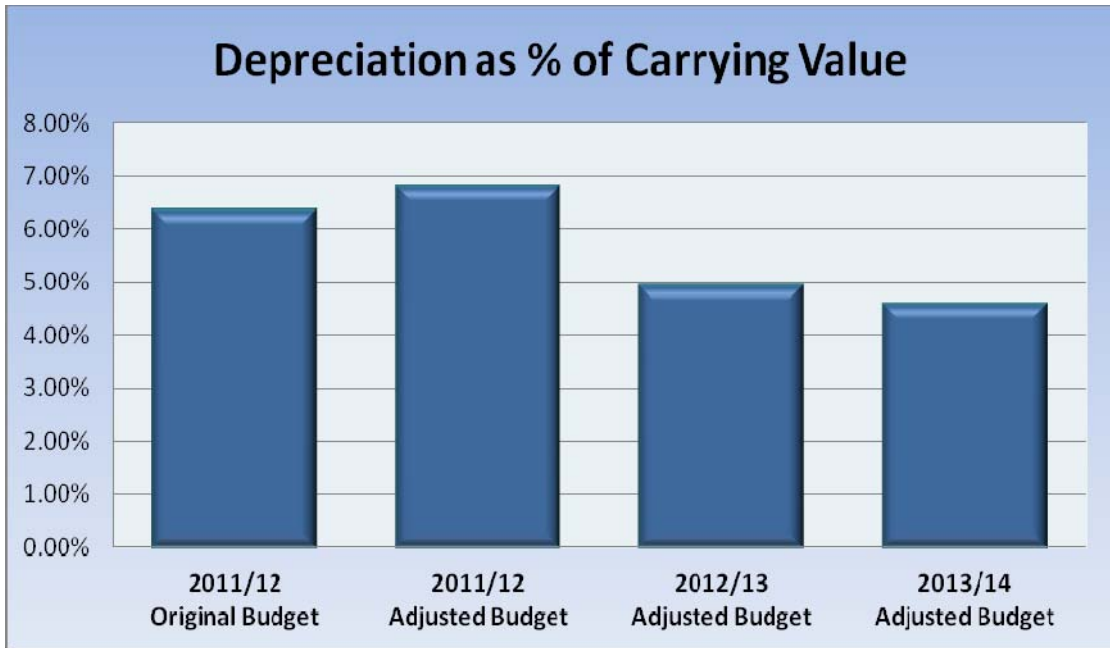
**Significant expenditure items**





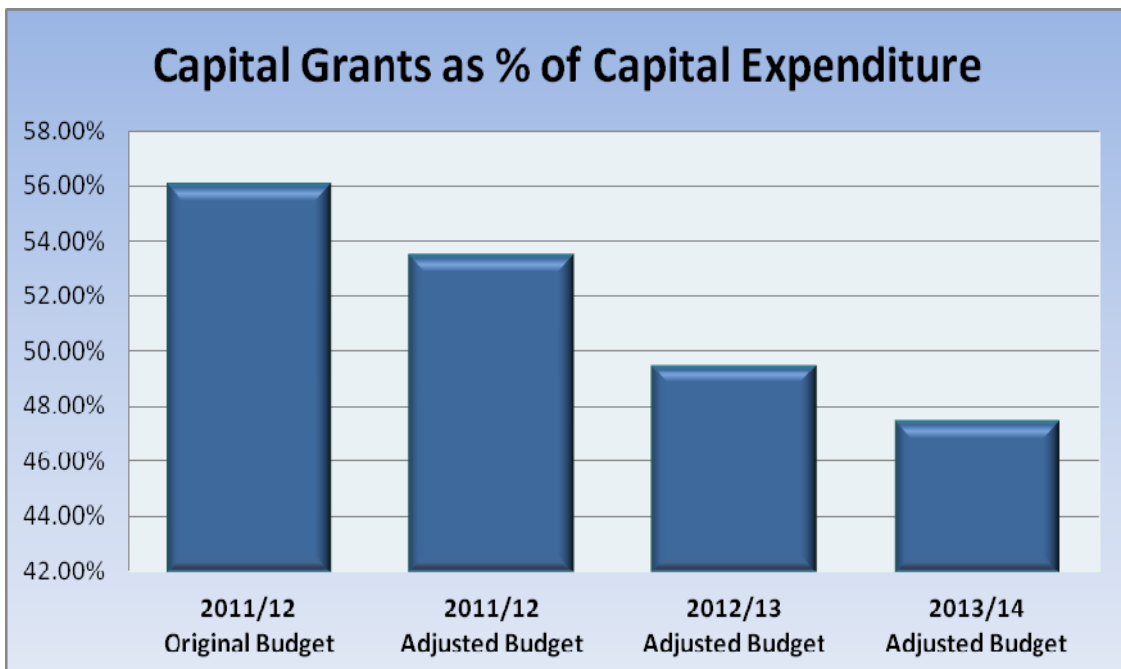
The percentage as indicated in the graph above compares favourably with that of other municipalities. I would, however, caution at randomly using this percentage as a benchmark or indicator as a lot of variables influence this percentage for example the percentage will decrease dramatically if housing top structures are being built on contract or other operating grant expenditures increase. We are aware that benchmark indicators are being developed and are looking forward to compare our results with such benchmarks.





### Property, Plant and Equipment (PPE)

The municipality funds a large portion of the PPE from grants, as depicted below:



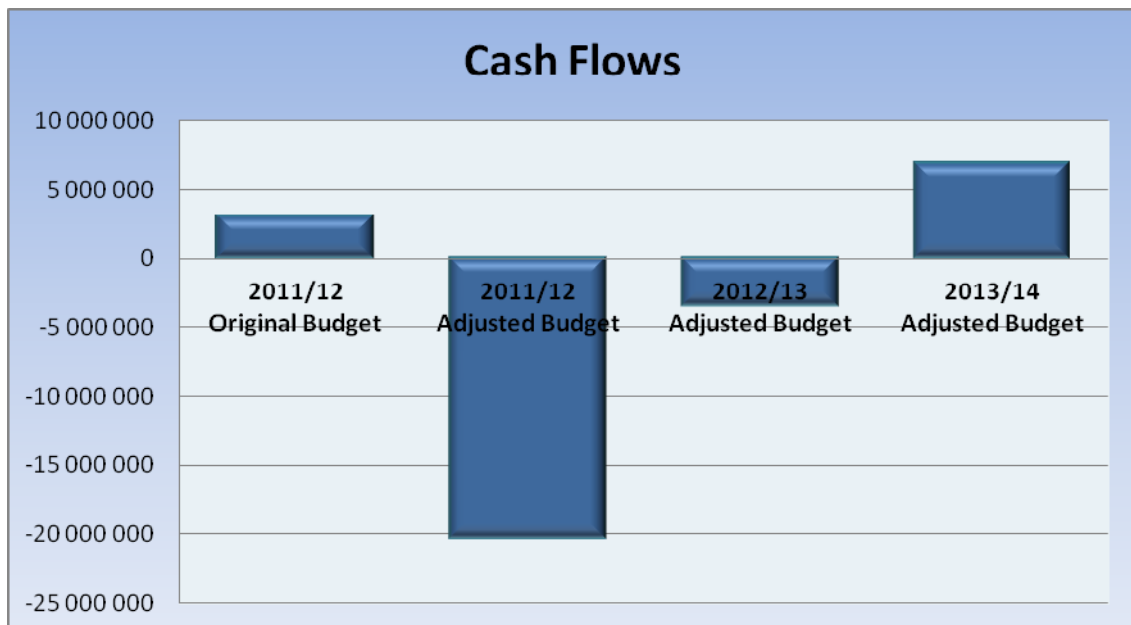
## Debtors Management

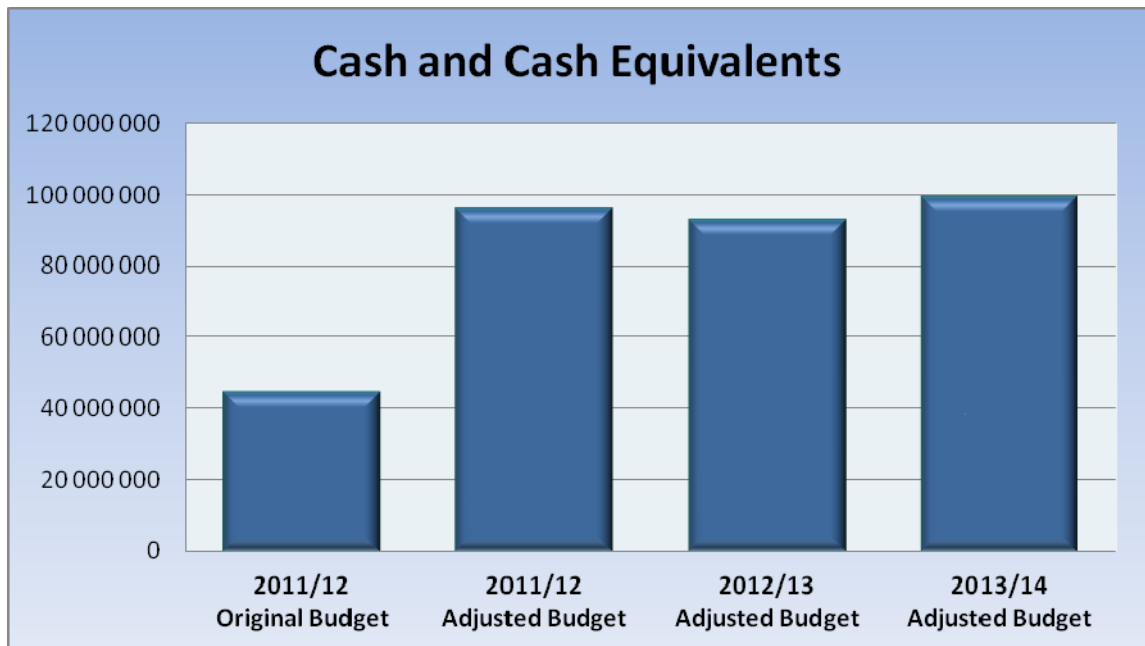
Although the municipality applies strict credit control measures, it is also aware of the current negative economic climate and the effect on the local economy. To this end the municipality has got an appropriate credit control and debt collection policy which guides the credit control measures, but also includes an appropriate write-off policy.

There is a significant jump in the provision for bad debts against prior years. This is mainly as a result of the water and sanitation functions again being incorporated into the municipality's book of accounts. An amount of R5,2m has been budgeted for bad debts. We are confident that our debt collection measures will not necessitate this amount at year end, but we would rather budget conservatively than finding ourselves with cash flow problems at the end. This, again, is indicative of our approach to financial management.

## Cash and Cash Equivalents

The original budget reflected a positive inflow of R3m but after adjustments a shortfall of R20,2m is forecasted. This is mainly as a result of the unspent grants of R23,5m being utilised. The forecast is as follows:

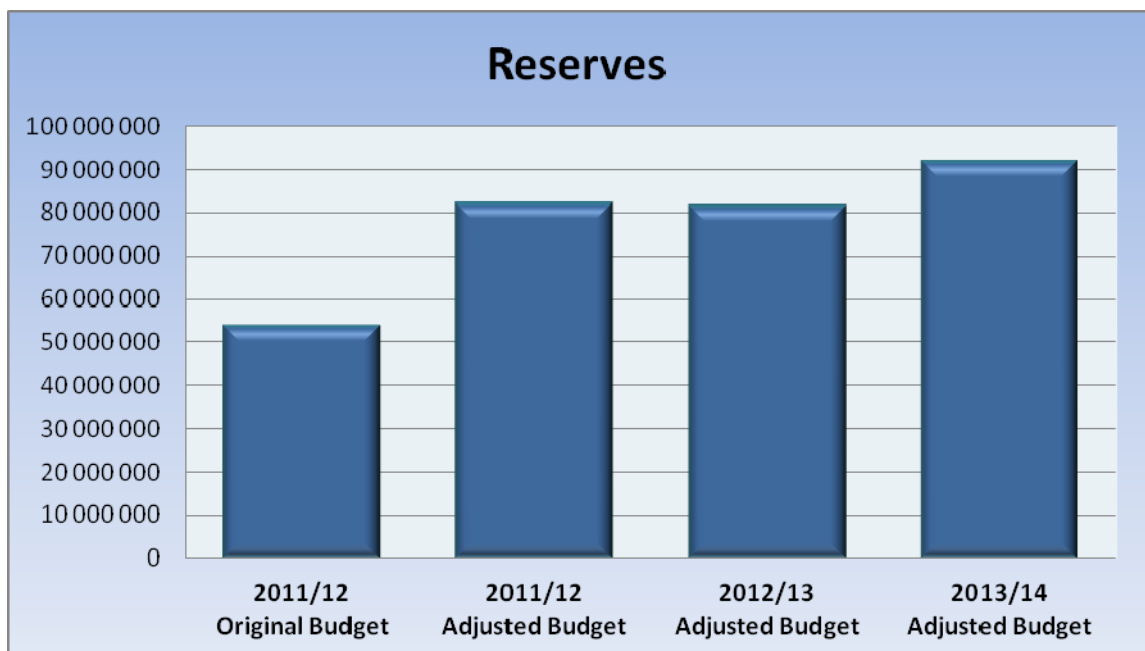




### Reserves

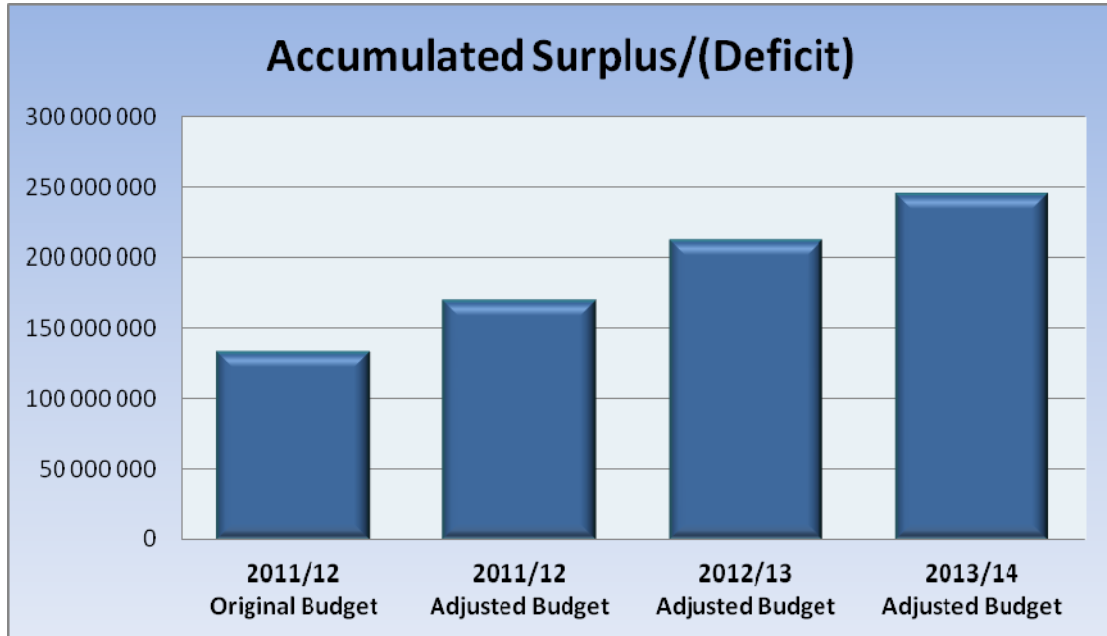
Reserves, which include the Capital Replacement Reserve, the Employee Benefits reserve and the Valuation Roll Reserve are cash-backed. In addition there is also a Revaluation Reserve of R0,8m as a result of the revaluation model being utilised for land and buildings.

The totals of these reserves are depicted below:



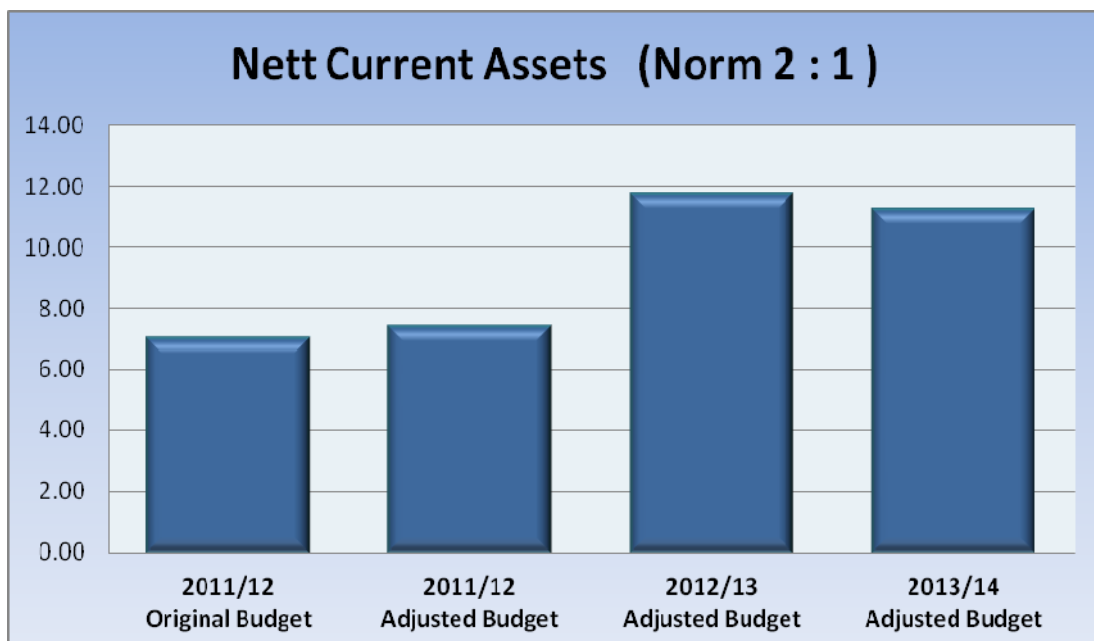
## Accumulated Surplus

The accumulated Surplus, after transfers to reserves, is projected to be as follows over the MTREF period:



## Nett Current Assets

Nett current assets measures the ability of the municipality to honour its current commitments. An acceptable norm is 2:1. The municipality's nett current asset position is depicted below, which shows that the municipality is in a healthy financial position.





### *Recommendations*

It is recommended:

- 1) that the Council approves the adjustments budget and take the resolutions listed in Section 2 below; and
- 2) That the Council approves the changes to the service delivery and budget implementation plan.

## Section 2 - Budget Related Resolutions

Senqu Municipality

MTREF 2011/2012

These are the resolutions that must be approved by Council with the final adoption of the adjustments budget:

RESOLVED:

[a]. That the adjustments budget, inclusive of changes in terms of section 28(2) of the MFMA, of Senqu Municipality for the financial year 2011/2012; and indicative for the two projected years 2012/13 and 2013/14, as set-out in the schedules contained in Section 4, be approved:

1.1 Table B2: Budgeted Financial Performance (expenditure by standard classification)

1.2 Table B3: Budgeted Financial Performance (expenditure by municipal vote)

1.3 Table B4: Budgeted Financial Performance (revenue by source)

1.4 Table B5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding.

[b]. That the amended performance objectives as contained in the SDBIP be approved (Attached supporting documentation form SB 3).

[c]. That it be noted that there are no changes to any budget related policies.

## Section 3 - Executive Summary

### Introduction

The budget is the second adjustments budget of the municipality which is in the National Treasury formats as prescribed in the new Budget Regulations.

Full budgetary compliance in all aspects of the regulations and GRAP will take time, as systems, and especially obtaining statistical information, needs to be adapted, but this budget to a large degree complies with all necessary requirements.

### Effect of the adjustment budget

A key consideration for the compilation of the adjustments budget was long term financial sustainability and ensuring continued service delivery and improved service delivery. In addition, the Council planned and budgeted for the extension of services to areas not sufficiently serviced in the past as well as redirecting funds for capital projects which were incomplete for a long period of time.

The new projected forecasts for the MTREF are as follows:

#### **OPERATING BUDGET**

Type	2011/12	2012/13	2013/14
Revenue	195 282	167 201	178 021
Expenditure	164 315	126 027	134 772
Surplus/(Deficit)	30 967	41 174	43 249
Less: Capital Grants	(22 091)	(26 686)	(28 513)
Surplus/(Deficit) excluding capital grants	8 876	14 488	15 096

**CAPITAL BUDGET (R'000)**

<b>Objective</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
Governance and Admin	1 234	803	859
Community and Safety Services	3 533	7 995	15 056
Economic Services	20 754	18 993	17 879
Trading Services	15 537	16 578	12 479
<b>Total</b>	<b>41 058</b>	<b>44 369</b>	<b>46 273</b>

The projected funding of the capital budget is as follows: (R 000)

<b>Funding Source</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
National Government	22 007	26 686	28 153
Provincial Government	84	-	-
Own Funds	18 967	17 683	18 120
<b>Total</b>	<b>41 058</b>	<b>44 369</b>	<b>46 273</b>

A summary of the revised budget is as follows:

Description	Budget Year 2011/12			Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
<b>R thousands</b>					
<b><u>Financial Performance</u></b>					
Property rates	3 702	472	4 174	3 961	4 238
Service charges	30 726	3 309	34 035	32 877	35 178
Investment revenue	5 885	1 367	7 252	6 297	6 738
Transfers recognised - operational	89 611	35 706	125 317	95 686	101 900
Other own revenue	1 584	829	2 412	1 694	1 813
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>131 508</b>	<b>41 683</b>	<b>173 191</b>	<b>140 516</b>	<b>149 868</b>
Employee costs	41 159	4 301	45 460	44 040	47 123
Remuneration of councillors	8 890	(325)	8 565	9 512	10 178
Depreciation & asset impairment	10 391	2 638	13 029	11 118	11 896
Finance charges	1 000	915	1 915	-	-
Materials and bulk purchases	17 303	-	17 303	18 514	19 810
Transfers and grants	300	434	734	654	676
Other expenditure	42 785	34 524	77 309	42 188	45 087
<b>Total Expenditure</b>	<b>121 828</b>	<b>42 487</b>	<b>164 315</b>	<b>126 027</b>	<b>134 772</b>
<b>Surplus/(Deficit)</b>	<b>9 680</b>	<b>(804)</b>	<b>8 876</b>	<b>14 488</b>	<b>15 096</b>
Transfers recognised - capital	21 947	144	22 091	26 686	28 153
Contributions recognised - capital & contributed assets	-	-	-	-	-
<b>Surplus/ (Deficit) for the year</b>	<b>31 627</b>	<b>(660)</b>	<b>30 967</b>	<b>41 174</b>	<b>43 249</b>
<b><u>Capital expenditure &amp; funds sources</u></b>					
Capital expenditure	39 173	1 884	41 058	44 369	46 273
Transfers recognised - capital	21 947	144	22 091	26 686	28 153
Internally generated funds	17 227	1 740	18 967	17 683	18 120
<b>Total sources of capital funds</b>	<b>39 173</b>	<b>1 884</b>	<b>41 058</b>	<b>44 369</b>	<b>46 273</b>
<b><u>Financial position</u></b>					
Total current assets	56 010	53 577	109 587	106 588	115 178
Total non current assets	163 603	22 403	186 006	219 257	253 634
Total current liabilities	8 001	6 862	14 863	9 068	10 245
Total non current liabilities	25 222	4 047	29 270	24 142	22 683
<b>Community wealth/Equity</b>	<b>186 390</b>	<b>65 071</b>	<b>251 461</b>	<b>292 635</b>	<b>335 884</b>

Description	Budget Year 2011/12			Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
<b>R thousands</b>					
<b><u>Cash flows</u></b>					
Net cash from (used) operating	42 359	(20 871)	21 488	42 102	54 411
Net cash from (used) investing	(39 158)	(1 899)	(41 058)	(44 355)	(46 273)
Net cash from (used) financing	(168)	(521)	(689)	(1 172)	(1 290)
<b>Cash/cash equivalents at the year end</b>	<b>44 483</b>	<b>51 405</b>	<b>95 888</b>	<b>92 464</b>	<b>99 312</b>
<b><u>Cash backing/surplus reconciliation</u></b>					
Cash and investments available	44 483	51 405	95 888	92 464	99 312
Application of cash and investments	46 890	33 496	80 385	78 540	88 825
<b>Balance - surplus (shortfall)</b>	<b>(2 406)</b>	<b>17 909</b>	<b>15 503</b>	<b>13 924</b>	<b>10 487</b>
<b><u>Asset Management</u></b>					
Asset register summary (WDV)	163 603	28 029	191 632	224 883	259 259
Depreciation & asset impairment	10 391	2 638	13 029	11 118	11 896
Repairs and Maintenance	7 732	(4 630)	3 102	4 528	4 845
<b><u>Free services</u></b>					
Cost of Free Basic Services provided	11 044	-	11 044	11 817	12 644
Revenue cost of free services provided	12 968	-	12 968	13 875	14 847

## Section 4 - Adjustment budget tables

The adjustments budget tables are attached to this document as Tables B1 to B10.

The Budget tables are:

Table B1 - Adjustments Budget Summary

Table B2 - Adjustments Budgeted Financial Performance (revenue and expenditure by standard classification)

Table B3 - Adjustments Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table B4 - Adjustments Budgeted Financial Performance (revenue and expenditure)

Table B5 - Adjustments Budgeted Capital Expenditure by vote, standard classification and funding

Table B6 - Adjustments Budgeted Financial Position

Table B7 - Adjustments Budgeted Cash Flows

Table B8 - Adjustments Cash backed reserves/accumulated surplus reconciliation

Table B9 - Adjustments Budget Asset Management

Table B10 - Adjustments Budget Basic service delivery measurement

The municipality does not have any entities for which adjustments budgets must be prepared.

## **PART 2 - SUPPORTING DOCUMENTATION**

### **Section 5 - Measurable performance objectives and indicators**

Changes to measurable performance objectives and indicators are included in the supporting tables attached as Appendix "A". These indicators are part of the indicators contained in the Service Delivery and Budget Implementation Plan, which again forms the basis of the performance contracts of the Municipal Manager and Senior Management.

### **Section 6 - Budget related policies**

There are no changes to the budget related policies proposed in the adjustments budget.

### **Section 7 - Overview of budget assumptions**

#### **Budget Assumptions**

There are no changes to the budget assumptions proposed in the adjustments budget.

### **Section 8 - Funding compliance**

The adjustments budget is cash - funded which is the first indicator of a "credible" budget.

Funding levels are acceptable at an average of 7 months cash - resources, which is remarkable in these economic times, and is sufficient to cover all requirements of the funding and reserves policy.

### **Section 9 - Overview of budget funding**

#### **Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and



- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

### **A Credible Budget**

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

### **Fiscal Overview of Senqu Municipality**

Over the past financial years via sound and strong financial management, Senqu Municipality has moved internally to a position of relative financial stability. There is also a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management.

## Long term financial planning

The municipality's financial position is sound and this budget further ensures that it stays sound.

The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

Due to the fact that the majority of capital expenditure from own sources be funded by way of own cash, the municipality must ensure that the principle of "the user pays for the use of the assets" be applied in its long-term financial strategy. It is for this reason that the municipality will in future provide for cash - backed reserves, which consist of Employee Benefits provisions, the cost of replacing the existing valuation roll and contributions to the Capital Replacement Reserve with the idea being a contribution at least equal to the depreciation charges on those assets being used.

### **Sources of funding**

Interest earned from investments is applied to the income and expenditure account to help fund the operating budget. The following tables summarises the budgeted interest over the MTREF;

R '000	2011/12	2012/13	2013/14
Investment Interest	6 400	5 136	5 496

### **Borrowing**

The MFMA prescribes the conditions within which municipalities may borrow through either short or long term debt.

The Act stipulates that short term debt can be used to meet immediate cash flow needs but that it must be fully repaid within the financial year in which it was incurred. Long term debt can only be incurred for capital expenditure or to re-finance existing long term debt. Proposals to incur long term debt must go through a public consultation process.

The cash flow projections will determine the likely need to borrow short term. It is not projected that any short term borrowing will be required over the MTREF period.

The ratios as set out in the Cash and Management Investment policy are used to establish prudential levels of borrowing in terms of affordability and the overall indebtedness of the Municipality.

Based on these measures of affordability, the Municipality has made the following budgeted provisions for new borrowing for capital expenditure over the MTREF.

R '000	2011/12	2012/13	2013/14
Long-term borrowing	14 497	13 170	11 711

## Section 10 - Expenditure on allocations and grant programmes

### Grant allocations

Details of each grant to be received and spent are shown in the schedules SB7 to SB9 attached to the report.

## Section 11 - Allocations and grants made by the Municipality

### Allocations Made by the Municipality

Refer to supporting schedule SB10 for allocations made. Total allocations are as follows:

R '000	2011/12	2012/13	2013/14
External Entities	1 034	654	676

Any allocation made to an outside body must comply with the requirements of section 67 of the MFMA. This stipulates that before transferring funds to an outside organisation the Municipal Manager, as Accounting Officer, must be satisfied that the organisation or body has the capacity to comply with the agreement and has adequate financial management and other systems in place.

National Treasury further indicated in MFMA circular 51 that "discretionary" funds should not be appropriated in the budget due to such funds not being transparent during the consultation process.

## **Section 12 - Councillor allowances and employee benefits**

### **Salaries, Allowances and Benefits**

There is a minor reduction proposed for Councillor Allowances.

Details of Councillor Allowances and employee benefits are included in supporting table SB11 attached.

## **Section 13 - Monthly targets for revenue, expenditure and cash flow**

### **Monthly Cash Flows by source**

Supporting tables SB 12 to SB 17 show the adjusted monthly cash flows.

## Section 14 - Adjustments to the quarterly service delivery and budget implementation plans - internal departments

The changes to the quarterly service delivery and budget implementation plans as a result of the changes to the budget is being submitted separately. The main changes to the SDBIP for the year is listed below.

Description	Unit of measurement	Budget Year 2011/12		
		Original Budget	Total Adjusts.	Adjusted Budget
<b>Vote5 - Road Transport</b>				
<b>Function 1 - Roads</b>				
<b>Sub-function 1 - Acces Roads</b>				
<i>Upgrade of Access Roads in Ward 7, 8, 9 &amp; 12 (Phase II)</i>	Completion of project to the specification of the engineers	6 809	(5 715)	1 094
<b>Sub-function 1 - Surfaced Roads</b>				
<i>Surfaced Roads</i>	Completion of project to the specification of the engineers	4 000	(238)	3 762
<b>Function 2 - Taxi Ranks</b>				
<b>Sub-function 2 - Taxi Ranks</b>				
<i>Sterkspruit Taxi Rank</i>	Fully functional taxi rank	1 980	9 475	11 456
<b>Vote6 - Waste Water Management</b>				
<b>Function 1 - Storm Water</b>				
<b>Sub-function 1 - Infrastructure</b>				
<i>Khwezi Storm Water (Phase II)</i>	Acceptable stormwater drainage system	4 000	8 604	12 604
<b>Vote9 - Community &amp; Social Services</b>				
<b>Function 1 - Cemeteries</b>				
<b>Sub-function 1 - Cemeteries</b>				
<i>Cemeteries (Phase 2)</i>		3 000	(3 000)	-
<b>Vote10 - Sport &amp; Recreation</b>				
<b>Function 1 - Sport Facilities</b>				
<b>Sub-function 1 - Sport Facilities</b>				
<i>Upgrading Sport Facility-Barkly East</i>	Fully functional sport facilities	1 477	(1 477)	-
<i>Sport Field Lighting</i>	Fully functional sport facilities	2 485	433	2 918

Vote12 - Electricity				
Function 1 - Electricity distribution				
Sub-function 1 - Infrastructure				
	Completion of project to satisfy specifications of the engineers			
<i>Transmission &amp; Reticulation</i>		3 000	(1 500)	1 500
Vote13 - Waste Management				
Function 1 - Refuse				
Sub-function 1 - Waste sites Infrastructure				
	Completion of project to satisfy specifications of the engineers			
<i>Solid Waste Site Sterkspruit</i>		2 304	(2 180)	124
	Completion of project to satisfy specifications of the engineers			
<i>Solid Waste Site Herschell</i>		1 392	(1 392)	-

## Section 15 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms

### ENTITIES

The municipality does not have any entities.

### Other Service Delivery Mechanisms.

The municipality has service delivery agreements with external parties for the delivery of the Municipality's services.

## Section 16 - Contracts having future budgetary implications

The municipality does not have any roll - over contracts with budget implications.

## Section 17 - Capital expenditure details

Capital expenditure details are listed in Supporting Table SB 18(B) to SB 19.

## Section 18 - Municipal Manager's quality certification

I, M M Yawa, Municipal Manager of Senqu Municipality, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the adjustments budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

M M Yawa

Municipal Manager of Senqu Municipality

Signature .....

Date .....