ADJUSTMENT BUDGET AND SUPPORTING DOCUMENTATION OF MUNICIPALITIES

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PART 1 – ANNUAL BUDGET

1.1 CHAIRPERSON REPORT

Madam Speaker
Chief Whip
Councillors
Traditional leaders
Municipal Manager & official
Distinguished guest
Ladies and Gentlemen

I wish you a warm welcome

It is my pleasure to present the adjustment budget to the honourable council.

I present the 2011/2012 adjustment budget to the honourable council after the disaster that hit our municipality on the 18th of January 2012 and destroyed most of our infrastructure networks and municipal buildings. The 2011/2012 adjustment budget will focus mainly on projects that intend to reconstruct the infrastructure networks and municipal buildings destroyed by the floods.

With this current situation it is inevitable that Maruleng Local Municipality, like all municipalities, would face major financial constraints. We all know that under normal circumstances resource requirements are more than resources available. Due to our small revenue base these constraints will be worse than the previous financial years.

The municipal midyear assessment indicates the following major changes.

REVENUE

- Municipal revenue has increased by R 14,549,969.80 and the following were the major contributors.
    - R 319,600.00 for FMG, R 414,473.79 for MSIG, R3, 809,272.87 for MIG, the amounts were unspent as at 30 June 2011
    - R 4,000,000.00 for Mopani unspent conditional grant as at 30 June 2011
    - R 6,000,000.00 from own funding i.e. from the investment account
    - R 830,000.00 from the sale of municipal properties
    - R 2,430,742 for Mopani operation and maintenance - water

EXPENDITURE

- Councillors remuneration increased by R 1,862,906.01, the increase was as a result of the councillors upper limit
- General expenses increased by R 4,460,229.29 ,the major contributors being Depreciation, Settlement award and Professional fees for Finance and Spatial Planning and Economic Development
- Rehabilitation of landfill side increased by R 1,000,000.00 due to roll over from previous year.
- Server upgrade increased by R 500,000.00 to enable the municipality to solve the system failure caused by the disaster.
- Maintenance roads and bridges increased by R 350,000.00 due to disaster incurred by the municipality.
- Ward Committees increased by R120, 000, 00 to make their salary R1, 000,000 effective from 1st March 2012.
- Free Basic Electricity decreased by R 500,000.00 because the spending pattern is very low.

INFRASTRUCTURE PROJECTS

- Fences for cemeteries decreased by R2, 100,000.00 because the spending pattern was too low. Out of the R 3000,000.00 originally budgeted only R 529,507.00 was spent to date.
- Infrastructure projects increased by R11,093,219.52 , the increase was caused by the following
  - R 3.8m unspent conditional grants from previous financial year
  - R 4m for the Rehabilitation of Hoedspruit main street,
  - R 2m for repairs of buildings (Maruleng, Thusong and Metz library)
- Maruleng low level bridges decreased by R600, 000.00 to cater for the following roads and maintenance equipments
  - Compaction roller with an amount of R145,00.00,
  - tar cutter with R15,000.00,
  - trailer with R45,000.00
  - whackers rammers with R50,000.00

1.2 COUNCIL RESOLUTIONS

On the of 22 February 2012 Council of Maruleng Local Municipality met in the Council Chambers to consider the Adjustment budget of the municipality for the financial year 2011/12. The Council approved and adopted the following resolutions:

1. The Council of Maruleng Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1. The Adjustment budget of the municipality for the financial year 2011/12 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table 9 on page 18;
1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table 10 on page 18;
1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type as contained in Table 11 on page 19; and
1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table 12 on page 19.

Maruleng Local Municipality 2011/12 Adjustment Budget and MTREF

1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, Assets management and basic service delivery targets are approved as set out in the Following tables:
1.2.1. Budgeted Financial Position as contained in Table 13 on page 20;
1.2.2. Budgeted Cash Flows as contained in Table 14 on page 21;
1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 15 on page 21;
1.2.4. Asset management as contained in Table 16 on page 22; and
1.2.5. Basic service delivery measurement as contained in Table 17 on page 23.

1.3. EXECUTIVE SUMMARY

The application of sound financial planning and financial management principles are very critical in achieving the Municipality's financial objectives

The following were the challenges experience during the compilation of the Adjustment budget for 2011/2012

- Ageing and poorly maintained roads infrastructure
- The need to reprioritise projects and expenditure within the existing limited resource taking into account the current cash flow limitations
- Increase in the expenditure incurred in the restoration of municipal infrastructure due to disaster incurred on the 18th of January 2012
- Salaries increase for municipal council in terms of upper limits

The following budget principles and guidelines directly informed the compilation of the 2011/2012 Adjustment budget

- The 2011/2012 Annual budget priorities and targets, as well as the base line allocations contained in that annual were adopted as the upper limits for the new baselines for the 2011/2012 annual budget

- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazette as required by the annual Division of Revenue Act;

The following table is a consolidated overview of the proposed 2011/2012 Adjustment Budget

Table 1 Consolidated Overview of the 2011/12 adjustment budget

Description	Original Budget 2011/12	Adjusted Budget 2011/12	Adjusted Budget 2012/13	Adjusted Budget 2013/14
Total Operating Revenue.	111,791,554	120,720,396	115,011,125	120,889,315
Total Operating Expenditure	80,417,721	79,076,981	78,156,105	82,506,292
Surplus or deficit	31,373,833	41,643,415	36,855,020	38,383,023
Total Capital Expenditure	34,257,961	44,789,084	38,128,058	35,087,081

- Total operating revenue has grown by 7.3 per cent or R8.9 million for the 2011/12 financial year when compared to the 2011/12 Annual Budget. For the two outer years, operational revenue decreased by 4.96 and 4.86 per cent respectively. Total operating expenditure for 2011/12 Adjustment budget has appropriated at 79 million and translate in to a surplus of 41, 6 million when compared to approved budget of 2011/12 financial year operational expenditure has decreased by 1.7 per cent in the 2011/12 adjustment budget and by 1.2 and increased by 5.3 per cent for each of the respective outer years of the adjustment budget. The operating surplus for the two outer years steadily increases to R36.8 million and R38.3 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.
- The capital budget of R44, 8 million for 2011/12 Adjustment budget is 23.5 per cent more when compared to the 2011/12 Annual Budget. The increase is due to the disaster occurred to the municipality on the 18th of January 2012. The capital programme decreased by 6.6 million in the 2012/13 financial year and R3 million in 2013/14.

ADJUSTMENT BUDGET TABLES

1.4. Operating Revenue Framework

For Maruleng municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality’s revenue strategy is built around the following key components:

- National Treasury’s guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality’s Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality’s Indigent Policy and rendering of free basic services; and

The following table is a summary of the 2011/12 Adjustment (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Table 2 Financial Performance (revenue and expenditure)

Description	Budget Year 2011/12				Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
Revenue By Source						
Property rates	10,292,600	19,936.00	19,936.00	10,312,536	10,930,741	11,204,010
Service charges - water revenue	2,416,800	- 2,416,800.00	- 2,416,800.00	-	-	-
Service charges - sanitation revenue	182,796	- 182,796.00	- 182,796.00	-	-	-
Service charges - refuse revenue	1,981,140	103,584.00	103,584.00	2,084,724	2,103,971	2,156,570
Rental of facilities and equipment	242,740	81,233.77	81,233.77	323,974	257,790	264,235
Interest earned - external investments	200,000	513,880.00	513,880.00	713,880	212,400	217,710
Interest earned - outstanding debtors	106,000	- 13,612.00	- 13,612.00	92,388	112,572	115,386
Dividends received			-	-		
Fines		131,676.00	131,676.00	131,676		
Licences and permits	6,905,900	- 6,905,900.00	- 6,905,900.00	-	7,334,066	7,517,417
Agency services	-	6,729,271.56	6,729,271.56	6,729,272	7,443,209	7,753,427

Transfers recognised - operating	54,466,000	348,074.23	348,074.23	54,814,074	59,444,000	62,902,000
Other revenue	8,930,657	7,307,482.00	7,307,482.00	16,238,139	- 3,072,624	- 3,149,440
Total Revenue (excluding capital transfers and contributions)	85,724,633	5,716,030	5,716,030	91,440,663	84,766,125	88,981,315
Expenditure By Type						
Employee related costs	33,906,385	- 2,434,019.77	- 2,434,019.77	31,472,366	36,212,020	38,674,437
Remuneration of councillors	5,947,487	1,826,906.01	1,826,906.01	7,774,393	6,351,916	6,783,847
Debt impairment	3,500,000	-	-	3,500,000	3,710,000	3,487,400
Depreciation & asset impairment	4,113,448	1,020,796.00	1,020,796.00	5,134,244	5,442,299	5,768,837
Bulk purchases	2,145,000	- 1,645,000.00	- 1,645,000.00	500,000	1,060,000	1,123,600
Other materials	2,047,000	123,000.00	123,000.00	2,170,000	2,116,820	2,243,829
Contracted services	5,325,000	300,000.00	300,000.00	5,625,000	5,644,500	5,983,170
Other expenditure	23,433,400	- 532,422.01	- 532,422.01	22,900,978	17,618,550	18,441,173
Total Expenditure	80,417,721	- 1,340,740	- 1,340,740	79,076,981	78,156,105	82,506,292
Surplus/(Deficit)	5,306,912.20	7,056,769.33	7,056,769.33	12,363,681.53	6,610,020.05	6,475,022.95
Transfers recognised - capital	26,066,921.28	3,212,812.23	3,212,812.23	29,279,733.51	30,245,000.00	31,908,000.00
Surplus/(Deficit) after taxation	31,373,833.48	10,269,581.56	10,269,581.56	41,643,415.04	36,855,020.05	38,383,022.95

Table 3 Percentage growth in revenue by main revenue source

Description	Budget Year 2011/12				Budget Year +1 2012/13		Budget Year +2 2013/14	
	Original Budget	Percentage	Adjusted Budget	%	Adjusted Budget	%	Adjusted Budget	%
Revenue By Source								
Property rates	10,292,600	12%	10,312,536	11%	10,930,741	13%	11,204,010	13%
Service charges - water revenue	2,416,800	3%	-		-		-	
Service charges - sanitation revenue	182,796	0%	-		-		-	
Service charges - refuse revenue	1,981,140	2%	2,084,724	2%	2,103,971	2%	2,156,570	2%
Rental of facilities and equipment	242,740	0%	323,974	0%	257,790	0%	264,235	0%
Interest earned - external investments	200,000	0%	713,880	1%	212,400	0%	217,710	0%
Interest earned - outstanding debtors	106,000	0%	92,388	0%	112,572	0%	115,386	0%
Fines			131,676	0%				
Licences and permits	6,905,900	8%	-		7,334,066	9%	7,517,417	8%
Agency services	-		6,729,272	7%	7,443,209	9%	7,753,427	9%
Transfers recognised - operating		64%		60%		70%		71%

	54,466,000		54,814,074		59,444,000		62,902,000	
Other revenue	8,930,657	10%	16,238,139	18%	-3,072,624	-4%	-3,149,440	-4%
Total Revenue (excluding capital transfers and contributions)	85,724,633	100%	91,440,663	100%	84,766,125	100%	88,981,315	100%
Total revenue from rates and other services charges	14,873,336	17%	12,397,260	14%	13,034,712	15%	13,360,580	15%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit. Revenue generated from rates and services charges forms only 17 percentage of the revenue basket for the Municipality because the Municipality depends mainly on grants.

In the 2011/12 financial year, revenue from rates and services charges totaled R14,8 million or 17 per cent. This decreased to R12.3 million, R13 million and R13.3 million in the respective financial years of the Adjustment budget. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality

Apart from Transfers recognized – operational which is about 64 percentage of the total revenue mix, property rates is the largest own revenue source totaling 12 per cent or R10.2 million rand and increases to R11.2 million by 2013/14. The second largest own sources is agency services which consists of various items such as traffic transaction fees, motor licensing, learners licenses, Mopani water and sanitation

Operating grants and transfers totals R54.4 million in the approved budget for 2011/12 financial year and steadily increases to R54, 8 million. Note that the year-on-year growth for the 2011/12 financial year is 64 per cent and decreased to 60 in the adjustment budget and increased to 70 and 71 per cent in the two outer years. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 4 Operating Transfers and Grant Receipts

Description	Budget Year 2011/12				Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
<u>Operating Transfers and Grants</u>						
National Government:	49,466,000.00	734,074.23	734,074.23	50,200,074.23	54,444,000.00	57,902,000.00
Equitable share	47,176,000.00	-	-	47,176,000.00	52,144,000.00	55,552,000.00
Finance Management	1,500,000.00	319,600.44	319,600.44	1,819,600.44	1,500,000.00	1,500,000.00
Municipal Systems Improvement	790,000.00	414,473.79	414,473.79	1,204,473.79	800,000.00	850,000.00
Mopani district	5,000,000.00	-5,000,000.00	-5,000,000.00	-	-	-
Mopani grants		4,000,000.00	4,000,000.00	4,000,000.00		
Other grant providers:	-	614,000.00	614,000.00	614,000.00	-	-
EPWP		614,000.00	614,000.00	614,000.00		

Total Operating Transfers and Grants	54,466,000.00	348,074.23	348,074.23	54,814,074.23	54,444,000.00	57,902,000.00
Capital Transfers and Grants						
National Government:	26,066,921.28	3,212,812.23	3,212,812.23	29,279,733.51	30,245,000.00	31,908,000.00
Municipal Infrastructure (MIG)	26,066,921.28	3,212,812.23	3,212,812.23	29,279,733.51	30,245,000.00	31,908,000.00
Total Capital Transfers and Grants	26,066,921.28	3,212,812.23	3,212,812.23	29,279,733.51	30,245,000.00	31,908,000.00
TOTAL RECEIPTS OF TRANSFERS & GRANTS	80,532,921.28	3,560,886.46	3,560,886.46	84,093,807.74	84,689,000.00	89,810,000.00

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Banks inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of Municipality and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1. Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0, 73:1 the implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further 40% of the reduction on the market value of a property will be granted in terms of the Municipality's own Property Rates Policy;

- 65 per cent rebate will be granted on residential properties (including state owned residential properties but excluding sectional title scheme and residential properties in non private estate);
- 100 per cent rebate will be granted to residential properties in rural, informal settlement and registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
  - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
  - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
  - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
  - The property must be categorized as residential.
- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The Municipality does not have special rating; one levying rate is applied for all categories. The current levying rate is 0.0093 and proposed for the 2011/2012 is 0.0096 as shown in the approved budget for 2011/12 financial period 12 and 13 per cent, with the increase for indigent households closer to 12 per cent.

1.5. OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2011/12 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no budget no spending.
- The following table is a high level summary of the 2011/12 budget and MTREF (classified per main type of operating expenditure):

Table 5: Summary of operating expenditure by standard classification item

Description	Budget Year 2011/12		Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Expenditure By Type				
Employee related costs	33,906,385	31,472,366	36,212,020	38,674,437
Remuneration of councillors	5,947,487	7,774,393	6,351,916	6,783,847
Debt impairment	3,500,000	3,500,000	3,710,000	3,487,400
Depreciation & asset impairment	4,113,448	5,134,244	5,442,299	5,768,837
Bulk purchases	2,145,000	500,000	1,060,000	1,123,600
Other materials	2,047,000	2,170,000	2,116,820	2,243,829
Contracted services	5,325,000	5,625,000	5,644,500	5,983,170
Other expenditure	23,433,400	22,900,978	17,618,550	18,441,173
Total Expenditure	80,417,721	79,076,981	78,156,105	82,506,292
Total revenue from rates and other services charges	14,873,336	12,397,260	13,034,712	13,360,580

The budgeted allocation for employee related costs for the 2011/12 financial year totals R33.9 million and decreased to 31.4 million when adjustment took place, inclusive in the amount for approval budget there was employee related cost for Mopani water and sanitation and it was deducted when the adjustment took place. The money was decreased by 7.7 percent as compare to adjustment budget. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.08 per cent for the 2011/12 financial year, included to the 7.08 per cent is 1 per cent budgeted for salary disparity. An annual increase of 7.08 per cent has been included in the two outer years of the MTREF. As part of the Municipality's turnaround strategy vacancies for critical positions have been budgeted for. The outcome of this exercise was the inclusion of R2.03 million in the 2011/12 financial year relating to critical and strategically important vacancies. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The settlement reached by the SALGBC parties in the salary dispute resulted in a further financial implication on this area of expenditure. A preliminary amount of R31.4 million has been included in the 2011/12 MTREF. It should be noted that the total financial implication could not be determined as the applicable municipal wage curve (representing equal pay for equal work at all municipalities in South Africa) has not been finalized.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget. The councilor's remuneration increased from 5.9 million to 7.7 million determined by the upper limits

The provision of debt impairment was determined based on an annual collection rate of 4 per cent and the Debt Write-off Policy of the Municipality. For the 2011/12 financial year this amount equates to R3.5 million and escalates to R3.7 million by 2013/14. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption.

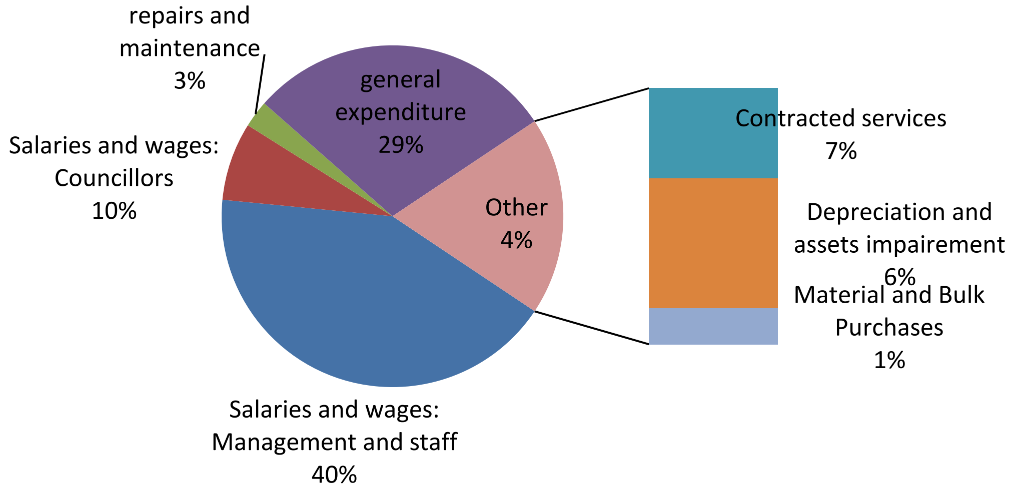
Bulk purchases are directly informed by the purchase of free basic electricity. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures exclude distribution losses.

Other material comprises of amongst others the materials for maintenance and cleaning materials and chemical. For 2011/12 the appropriation for this group of expenditure totals R 2 million in the approved budget and increased to 2.1 equates 2.7 per cent of the total operating expenditure for the approved adjustment budget

Contracted services have been identified to render service on behalf of or to the Municipality. In the 2011/12 financial year budget for waste removal contract and security services was adjusted to R5.6 million in 2011/12 financial periods which was indirectly related to the rendering of refuse removal ,this lead to 7.1 percent increase when compared to total operating expenditure . This major increase was caused by an increase in the number of points were security services is needed and the distance between the landfill site and the municipal collection points. For the two outer years growth has been limited to 1 per cent respectively

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 28.9 per cent for 2011/12 adjustment budget and curbed at 22.35 per cent for the two outer years, indicating that significant cost savings have been already realized.

Table 6 the following table gives a breakdown of the main expenditure categories for the 2011/12 Adjustment budget.



1.6. Capital expenditure

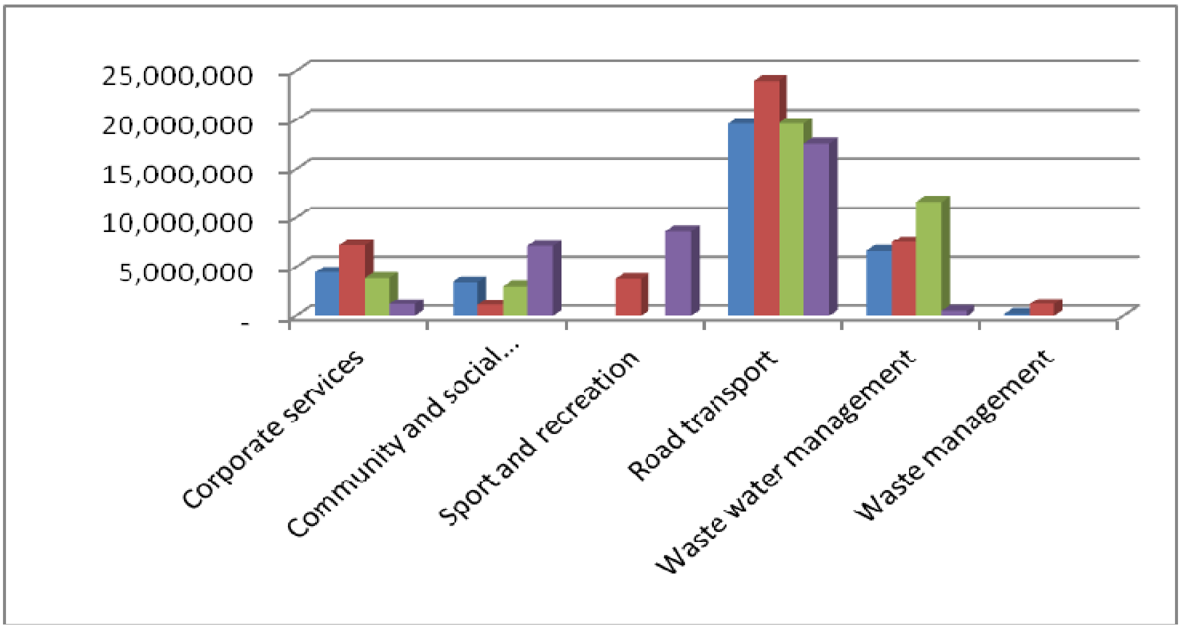
The following table provides a breakdown of budgeted capital expenditure by vote:

Table 7: 2011/12 capital budget per vote

	Budget Year 2011/12				Budget Year +1 2012/13		Budget Year +2 2013/14	
Description	Original Budget	percentage	Adjusted Budget	percentage	Adjusted Budget	percentage	Adjusted Budget	percentage
Capital Expenditure - Standard								
Corporate services	4,431,200.00	13%	7,169,103.67	16%	3,850,260.00	10%	1,170,290.60	3%
Community and social services	3,400,000.00	10%	1,100,000.00	2%	3,000,000.00	8%	7,100,000.00	20%
Sport and recreation			3,769,316.94	8%			8,665,698.28	25%
Road transport	19,605,897.92	57%	24,020,725.13	54%	19,622,872.00	51%	17,656,401.72	50%
Waste water management	6,620,862.72	19%	7,529,938.09	17%	11,654,926.00	31%	494,690.34	1%
Waste management	200,000.00	1%	1,200,000.00	3%				
Total Capital Expenditure - Standard	34,257,960.64	100%	44,789,083.83	100%	38,128,058.00	100%	35,087,080.94	100%

For 2011/12 adjustment budget an amount of R24 million has been appropriated for the development of Transport and roads which represents 54 per cent of the total capital budget. In the outer years this amount totals R19 million or 51 per cent and R17.6 million or 50 per cent respectively for each of the financial years. Transport and roads receives the highest allocation followed by waste water management at 17 per cent with an amount R7.5 million.

The following graph provide a breakdown of the capital budget to be spent on infrastructure related projects over the Adjustment budget



	Budget Year 2011/12		Budget Year +1 2012/13	Budget Year +2 2013/14
Description	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Capital Expenditure - Standard				
Corporate services	4,431,200.00	7,169,103.67	3,850,260.00	1,170,290.60
Community and social services	3,400,000.00	1,100,000.00	3,000,000.00	7,100,000.00
Sport and recreation		3,769,316.94		8,665,698.28
Road transport	19,605,897.92	24,020,725.13	19,622,872.00	17,656,401.72
Waste water management	6,620,862.72	7,529,938.09	11,654,926.00	494,690.34
Waste management	200,000.00	1,200,000.00		
Total Capital Expenditure - Standard	34,257,960.64	44,789,083.83	38,128,058.00	35,087,080.94

1.7 ANNUAL BUDGET TABLES - PARENT MUNICIPALITY

See attached copy of Adjustment budget which represents the ten main budget tables (Table B1 to Table B10) as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2011/12 budget and MTREF as approved by the Council.

- ### Table B1 – Budget Summary

Table 8: Explanatory notes to Adjustment Table B1 - Budget Summary

1. Table B1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).

2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

3. Financial management reforms emphasize the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:

   a. The operating surplus/deficit (after Total Expenditure) is positive over the Adjustment budget
   b. Capital expenditure is balanced by capital funding sources, of which
      I. Transfers recognized are reflected on the Financial Performance Budget;
      II. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This place the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. This cannot be achieved in one financial year. But over the adjustment budget there is improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2013/14, when a small surplus is reflected
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor..

- **Table 9:Table B2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**

Explanatory notes on Table B2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table B2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile ‘whole of government’ reports.

2. Note the Total Revenue on this table includes capital revenues (Transfers recognized – capital) and so does not balance to the operating revenue shown on Table B4.

3. Note that as a general principle the revenues for the Trading Services should exceed their expenditure. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function’s tariff structure.

3. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate Services.

- **Table 10: Table B3- Budgeted Financial Performance (revenue and expenditure by municipal vote)**

Explanatory notes to Table B3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table B3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organizational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote.

- **Table 11: Table B4 - Budgeted Financial Performance (revenue and expenditure)**

Explanatory notes to Table B4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue on adjustment budget is R91.4 million in 2011/12 and escalates to R88 million by 2013/14. This represents a year-on-year decreased by 7.9 per cent for the 2012/13 financial year and increased by 4.97 per cent for the 2013/14 financial year. The major increased in 2011/12 adjustment budget was caused by disaster which occurred to the municipality and an amount of 6 million will be reduced from the municipal investment account
2. Revenue to be generated from property rates is R10.3 million in the 2011/12 financial year and increases to R11.2 million by 2013/14 which represents 6.4 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 5.7 per cent, 5.8 per cent and 2.4 per cent for each of the respective financial years of the MTREF.

3. Services charges will be related from refuse only and other services like water and sanitation will be reported by Mopani district because they are water service authority.
4. Transfers recognized – operating includes the local government equitable share and other operating grants from national and provincial government. The grants receipts from national government are growing rapidly over the adjustment budget by 7.8 per cent and 5.5 per cent for the two outer years. The percentage share of this revenue source declines due to the more rapid relative growth in service charge revenues.

5. Bulk purchases have decreased from 2.1 to R500, 000.00 when compared to original budget and adjustment budget for the period ended June 2012, the reason being the bulk water purchased will be reported by the district and the spending patterns for bulk electricity was low.

6. Employee related costs and contracted services are the main cost drivers within the municipality

- **Table 12: Table B5 - Budgeted Capital Expenditure by vote, standard classification and funding source**

Explanatory notes to Table B5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table B5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2011/12 R44.7 million has been allocated for capital expenditure which totals 23.5 per

cent when compares to adjustment budget for 2011/12. This allocation escalates to R35 million in 2013/14

3. The capital programme is funded from capital and provincial grants and transfers and internally generated funds from current year surpluses. For 2011/12 adjustment budget, capital transfers totals R29.7 million which is 12.29 percent increase when compared to approved budget for 2011/12 financial period, the increased was affected by the roll over from 2010/11 financial period and reduced to R15 million by 2013/14

- **Table 13: Table B6 - Budgeted Financial Position**
  Explanatory notes to Table B6 - Budgeted Financial Position

1. Table B6 is consistent with international standards of good financial management practice, improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).

2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.

3. Table B6 is supported by an extensive table of notes SB2 which providing a detailed analysis of the major components of a number of items, including:
    - Call investments deposits;
    - Consumer debtors;
    - Property, plant and equipment;
    - Trade and other payables;
    - Provisions noncurrent;
    - Changes in net assets; and
    - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 14: Table B7 - Budgeted Cash Flow Statement

- **Explanatory notes to Table B7 - Budgeted Cash Flow Statement**

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.

2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

3. As part of the 2010/11 mid-year review and Adjustments Budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalization of spending priorities.

4. The 2011/12 Adjustment budget has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

5. Cash and cash equivalents totals R7.8 million as at the end of the 2011/12 financial year and escalates to R2.2 million by 2013/14.

Table 15: Table B8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

- **Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.

2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.

3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".

4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.

5. From the table it can be seen that for the period 2011/12 to 2013/14 the is an increased from R7.4 million to R13 million.

6. As part of the budgeting and planning guidelines that informed the compilation of the 2011/12 adjustment budget the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

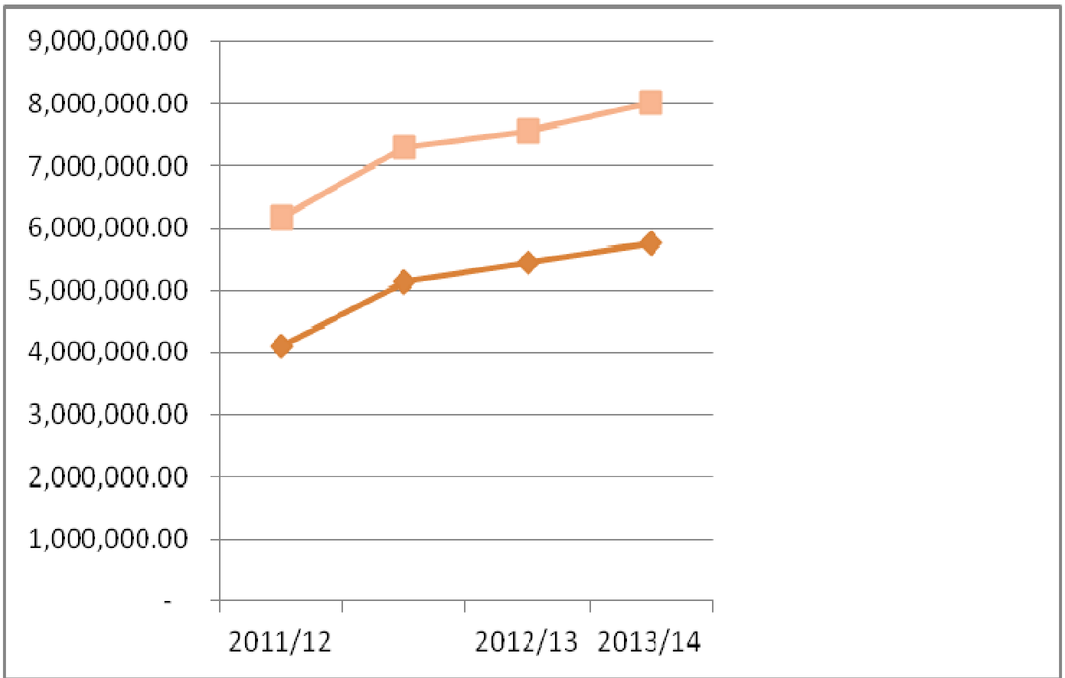
- **Table 16: Table B9 - Asset Management**

Explanatory notes to Table B9 - Asset Management

1. Table B9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The municipality meets both these recommendations.

3. The following graph provides an analysis between depreciation and operational repairs and maintenance over the Adjustment budget. It highlights the Municipality's strategy to address the maintenance backlog



Description	2011/12		2012/13	2013/14
Depreciation & asset impairment	4,113,448.30	5,134,244.30	5,442,298.95	5,768,836.88
Other materials	2,047,000.00	2,170,000.00	2,116,820.00	2,243,829.20

- **Table 17: Table B10 - Basic Service Delivery Measurement**
  Explanatory notes to Table B10 - Basic Service Delivery Measurement (see attached document)

1. Table B10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.

2. The Municipality continues to make good progress with the eradication of backlogs:
   - education - more than one third of the adult population lack any kind of schooling 67% of Maruleng population between the ages of 5 and 24 are attending schools and 27% are however not attending school

   - Water services – Maruleng municipality is characterized by low rainfall, this results in limited water resources culminating in severe water shortages and drought condition. About 16721 households which amount to 68% of the population have access water in terms of RDP standards, only 2.3% of the population has access to portable water

   - Sanitation services – about 22905 households which about 93.15 % of the population have access to sanitation backlog will be reduced by over 2000 households over the MTREF. The number of households with no toilet provision will be reduced by 1000 households in 2011/12

   - Electricity services –the electricity for the municipality is generated by Eskom, the provision of electricity to household have access to electricity which amount to 93.5% of the population. All the villages are electrified except posy connections and new extension; the backlog is about 1528 households. The municipality has budgeted R1 million for the provision of FBE to its indigents household.

   - Refuse services – the municipality provides waste collection services in two areas which arc are Hoedspruit and kampersrus for a total of 1229 household and in accounts to about 5% of households. In both commercial and residential area the collection takes place once in a week. No refuse removal is provided to the 33 villages. Those households rely mostly on backyards dumping and burning. The municipality has collection and transporting. The future plan for the municipality is to roll out waste collection to all villages.

3. Indigent register- the municipality has adopted policy and register. This register
   - The register facilitates the provision of free basic services; the updated indigents register has about 8249 households as beneficiaries.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of the Annual Budget Process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- That the various spending priorities of the different municipal departments are properly evaluated and prioritized in the allocation of resources.

2.1.1 Growth or decline in tax base of the municipality

- Debtor's revenue is assumed to increase at a rate that is influenced by the consumer debtor's collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

- Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing "households" is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the "poor household limits consumption to the level of free basic service

2.1.2. Salary increases

- The collective agreement regarding salaries/wages came into operation on 1 July 2009 and shall remain in force until 30 June 2012.

2.1.3. Impact of national, provincial and local policies

- Integration of service delivery between national, provincial and local government is critical to ensure focused service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:
    - Creating jobs;
    - Enhancing education and skill development;

- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

- To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.2. Overview of budget funding

2.2.1 Operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

TABLE 18- Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Budget Year 2011/12				Budget Year +1 2012/13		Budget Year +2 2013/14	
	Original Budget	percentage	Adjusted Budget	percentage	Adjusted Budget	percentage	Adjusted Budget	percentage
Revenue By Source								
Property rates	10,292,600	12%	10,312,536	11%	10,930,741	13%	11,204,010	13%
Service charges - water revenue	2,416,800	3%	-		-		-	
Service charges - sanitation revenue	182,796	0%	-		-		-	
Service charges - refuse revenue	1,981,140	2%	2,084,724	2%	2,103,971	2%	2,156,570	2%
Rental of facilities and equipment	242,740	0%	323,974	0%	257,790	0%	264,235	0%
Interest earned - external investments	200,000	0%	713,880	1%	212,400	0%	217,710	0%
Interest earned - outstanding debtors	106,000	0%	92,388	0%	112,572	0%	115,386	0%
Fines			131,676	0%				
Licences and permits	6,905,900	8%	-		7,334,066	9%	7,517,417	8%
Agency services	-		6,729,272	7%	7,443,209	9%	7,753,427	9%
Transfers recognised - operating	54,466,000	64%	54,814,074	60%	59,444,000	70%	62,902,000	71%
Other revenue	8,930,657	10%	16,238,139	18%	(3,072,624)	-4%	(3,149,440)	-4%
Total Revenue (excluding capital transfers and contributions)	85,724,633	100%	91,440,663	100%	84,766,125	100%	88,981,315	100%

Table 19-The following graph is a breakdown of the operational revenue per main category for the 2011/12 financial year.

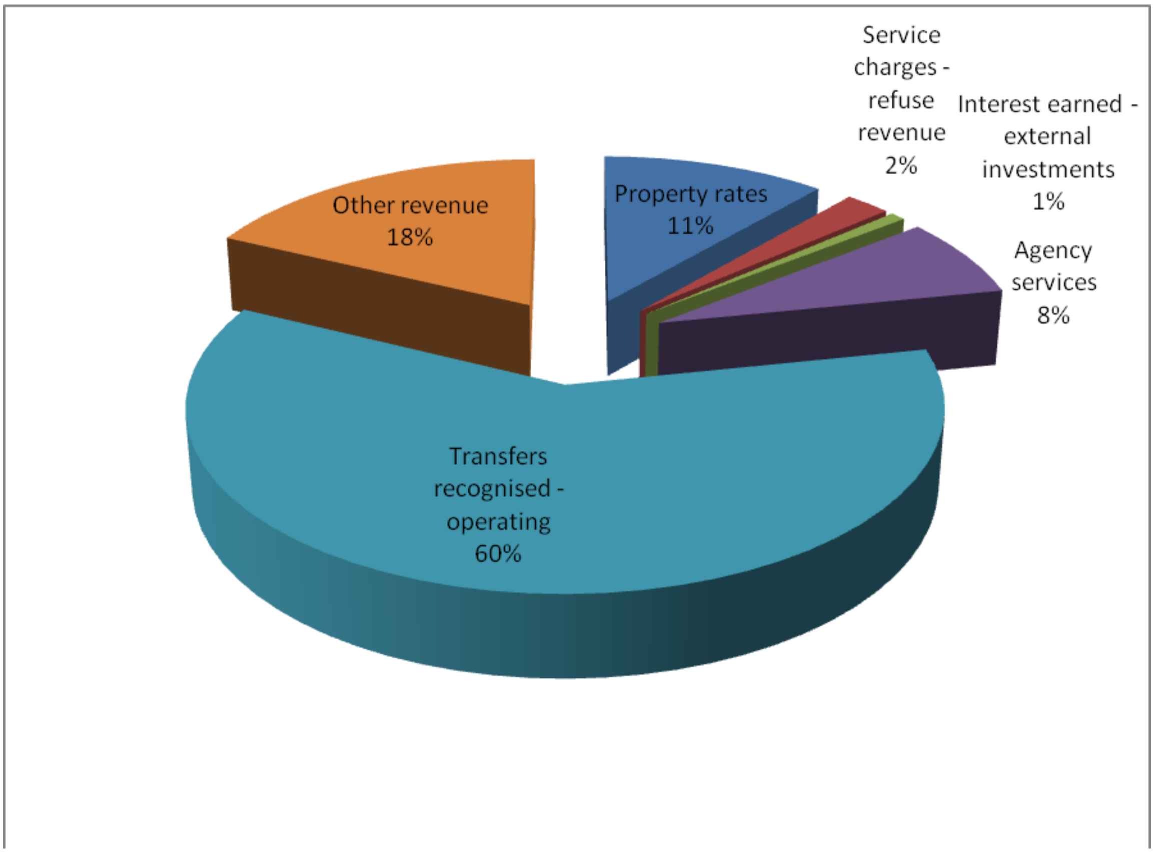


Figure 7 Breakdown of operating revenue over the 2011/12 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Municipality derives most of its operational revenue from the provision of goods and services such as refuse. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, agency services and other revenue).

The revenue strategy is a function of key components such as:

- Growth in the Municipality and economic development;
- Revenue management and enhancement;
- Achievement of annual collection rate for consumer revenue;
- National Treasury guidelines;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA),
- And the ability to extend new services and obtain cost recovery levels. The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts

2.2.2 Capital revenue

The following table is a breakdown of the funding composition of the 2011/12 adjustment budget for capital programme:

Table 20- Sources of capital revenue over the adjustment budget

Description	Budget Year 2011/12				Budget Year +1 2012/13		Budget Year +2 2013/14	
	Original Budget	%	Adjusted Budget	%	Adjusted Budget	%	Adjusted Budget	%
Total Capital transfers recognized	26,066,921.28	76%	30,720,009.16	69%	29,177,798.00	77%	15,551,092.06	44%
Internally generated funds	8,191,039.36	24%	14,069,074.67	31%	8,950,260.00	23%	19,535,988.88	56%
Total Capital Funding	34,257,960.64	100%	44,789,083.83	100%	38,128,058.00	100%	35,087,080.94	100%

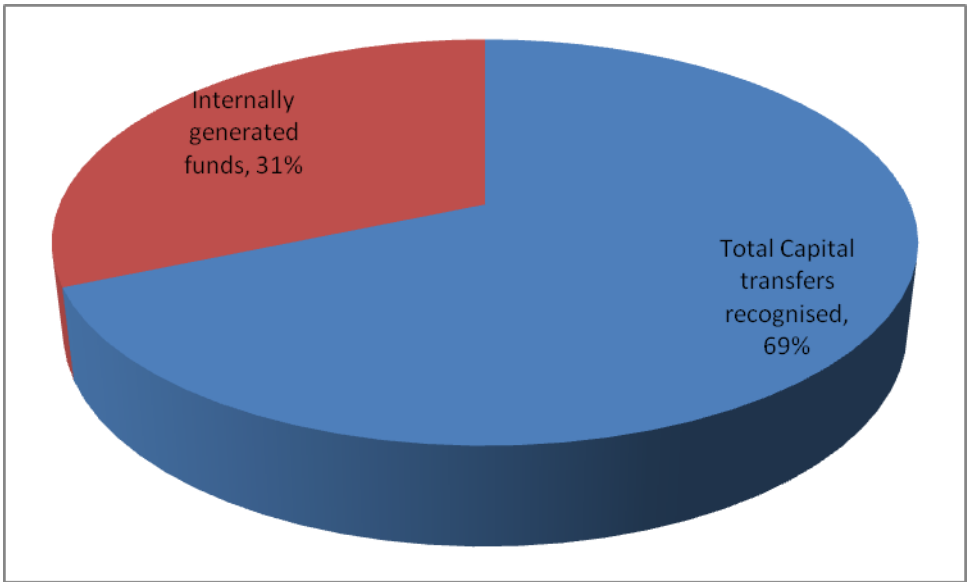


Figure 8 Sources of capital revenue for the 2011/12 adjustment budget

Capital grants and receipts equates to 69 per cent of the total funding source which represents R30.7 million for the 2011/12 financial year and steadily decreased to R15.5 million or 44 per cent by 2013/14. Growth relating to internally generated funds receipts is 31, 23 and 56 per cent respectively.

Table 21: SB7 - Capital transfers and grant receipts

Description	Budget Year 2011/12		Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Capital Transfers and Grants				
National government	26,067	29,280	30,245	31,908
Municipal Infrastructure (MIG)	26,067	29,280	30,245	31,908
Total Capital Transfers and Grants	26,067	29,280	30,245	31,908

2.2.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councilors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from "Ratepayers and other to be provided for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue,

Table 22-Table A7 Budgeted Cash Flows

Description	Budget Year 2011/12		Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratepayers and other	25,022,053	30,436,903	20,542,585	21,043,477
Government - operating	52,966,000	52,994,474	57,944,000	61,402,000
Government - capital	25,470,461	29,279,734	30,245,000	31,908,000
Interest	306,000	806,268	324,972	333,086
Payments				
Suppliers and employees	(72,341,033)	(70,442,737)	(69,003,806)	(73,250,055)

NET CASH FROM/(USED) OPERATING ACTIVITIES	31,423,480	43,074,642	40,052,752	41,436,508
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Decrease (Increase) in non-current debtors	1,950,000	1,950,000	500,000	300,000
Decrease (increase) other non-current receivables	1,890	1,890	-	
Decrease (increase) in non-current investments	(212,500)	(212,500)	(1,537,500)	(1,500,000)
Payments				
Capital assets	(33,451,661)	(44,789,084)	(38,128,058)	(35,087,081)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(31,712,271)	(43,049,694)	(39,165,558)	(36,287,081)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans		-		
Borrowing long term/refinancing		-		
Increase (decrease) in consumer deposits		-		
Payments				
Repayment of borrowing		-		
NET CASH FROM/(USED) FINANCING ACTIVITIES	-	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD	(288,790)	24,948	887,194	5,149,427
Cash/cash equivalents at the year begin:	9,274,790	9,274,790	9,299,738	10,186,932
Cash/cash equivalents at the year end:	8,986,000	9,299,738	10,186,932	15,336,359

- The above table shows that cash and cash equivalents of the Municipality increased from 8.9 million to 9.2 million when compared the approval budget and adjustment budget for 2011/12 financial period, it also increased to 15.3 million for 2013/14 financial period. With the 2011/12 adjustments budget various cost efficiencies and savings had to be realized to ensure the Municipality could meet its operational expenditure commitments.
- In addition the Municipality undertook an extensive debt collection process to boost cash levels. These initiatives and interventions have translated into a positive cash position for the Municipality and it is projected that cash and cash equivalents on hand will increase to R9.2 million by the financial year end.

2.2.4 Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be "funded Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

Table B8 Cash backed reserves/accumulated surplus reconciliation

Description	Budget Year 2011/12		Budget Year +1 2012/13	Budget Year +2 2013/14
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Cash and investments available				
Cash/cash equivalents at the year end	8,986,000	9,299,738	10,186,932	15,336,359
Other current investments > 90 days	(1,000)	(314,738)	813,068	(1,336,359)
Non current assets - Investments	-	-	-	-
Cash and investments available:	8,985,000	8,985,000	11,000,000	14,000,000
Applications of cash and investments				
Unspent conditional transfers	2,000,000	2,000,000	1,800,000	1,200,000
Other working capital requirements	(6,402,772)	(477,268)	(649,857)	(398,244)
Total Applications of cash and investments:	(4,402,772)	1,522,732	1,150,143	801,756
Surplus(shortfall)	13,387,772	7,462,268	9,849,857	13,198,244

From the above table it can be seen that the cash and investments available total R8.9 million in the 2011/12 financial year and progressively increase to R14 million by 2013/14, including the projected cash and cash equivalents as determined in the cash flow forecast. The following is a breakdown of the application of this funding:

Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year.

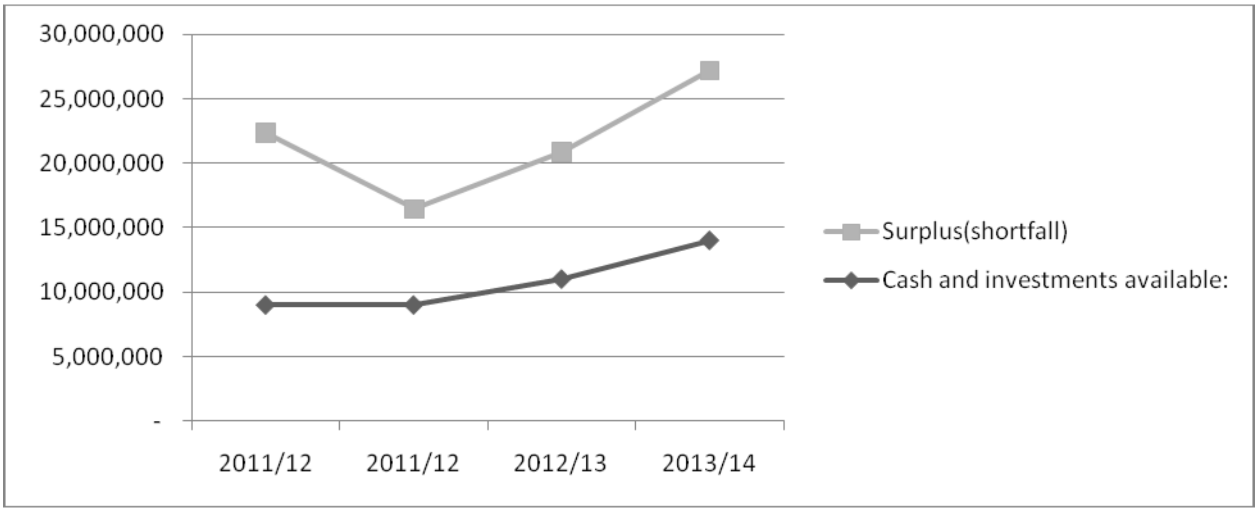
In the past these have been allowed to “roll-over and be spent in the ordinary course of business, but this practice has been discontinued. During the 2010/11 financial year the municipality was required to supply National Treasury with a detailed analysis of the unspent grants as well as an action plan of spending the grants.

- The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due. A key challenge is often the mismatch between the timing of receipts of funds from debtors and payments due to employees and creditors.
- For the purpose of the cash backed reserves and accumulated surplus reconciliation a provision equivalent to one month’s operational expenditure has been provided for. It needs to be noted that although this can be considered prudent, the desired cash levels should be 60 days to ensure continued liquidity of the municipality. Any underperformance in relation to collections could place upward pressure on the ability of the Municipality to meet its creditor obligations.

Most reserve fund cash-backing is discretionary in nature, but the reserve funds are not available to support a budget unless they are cash-backed. The reserve funds are not fully cash-backed. The level of cash-backing is directly informed by the municipality’s cash backing policy. These include the rehabilitation of landfill sites and quarries.

It can be concluded that the Municipality has a surplus against the cash backed and accumulated surpluses reconciliation. The level of cash-backing progressively increased over the period 20011/12 approved budget and decreased from 13.3 million to 7.4 million when compared the approved budget against the adjustment budget for 2011/12 financial period escalating from R9.8 million to 13.1 million respectively

The following graph supplies an analysis of the trends relating cash and cash equivalents and the cash backed reserves/accumulated funds reconciliation over a seven year perspective



2.2.5 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the adjustment budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Table 23: Supporting Table SB6 Adjustments Budget - funding measurement -

Description	Ref	MFMA section	2008/9	2009/10	2010/11	Medium Term Revenue and Expenditure Framework				
R thousands			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Prior Adjusted	Adjusted Budget	Budget Year +1 2012/13	Budget Year +2 2013/14
Funding measures	-	-								
Cash/cash equivalents at the year end - R'000	1	18(1)b	3,007,326	10,612,795	8,569,437	8,986,000	-	7,868,512	3,817,652	2,281,942
Cash + investments at the yr end less applications - R'000	2	18(1)b	- 5,847,415	8,913,155	22,736,213	13,387,772	-	7,462,268	9,849,857	13,198,244
Cash year end/monthly employee/supplier payments	3	18(1)b	1	4	8,565,727	0	-	0	0	0
Surplus/(Deficit) excluding depreciation offsets: R'000	4	18(1)	366,974	25,883,567	20,708,251	31,373,833	-	-	-	-
Service charge rev % change - macro CPIX target exclusive	5	18(1)a,(2)	101.40%	-7.9%	23.0%	0.0%	0.0%	0.0%	-0.9%	-3.5%
Cash receipts % of Ratepayer & Other revenue	6	18(1)a,(2)	0.0%	0.0%	0.0%	87.1%	0.0%	0.0%	-0.1%	-1.0%
Debt impairment expense as a % of total billable revenue	7	18(1)a,(2)	0.0%	0.0%	20.4%	23.2%	0.0%	27.5%	27.9%	25.6%
Capital payments % of capital expenditure	8	18(1)c;19	45.2%	122.3%	100.0%	97.6%	0.0%	0.0%	0.0%	0.0%
Borrowing receipts % of capital expenditure (excl. transfers)	9	18(1)c	27.2%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted	10	18(1)a				0.0%	0.0%	0.0%	0.0%	0.0%

allocations										
Current consumer debtors % change - incr(decr)	11	18(1)a	70.2%	55.1%	32.0%	-69.2%	81.2%		-0.2%	-1.8%
Long term receivables % change - incr(decr)	12	18(1)a	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R&M % of Property Plant & Equipment	13	20(1)(vi)	0.0%	0.8%	0.9%	1.4%	0.0%	1.5%	1.2%	1.1%
Asset renewal % of capital budget	14	20(1)(vi)	100.0%	100.0%	100.0%	50.0%	0.0%	0.0%	-1522.5%	1269.6%

2.2.5.1 Cash/cash equivalent position

- The Municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

- If the municipality's forecast cash position is negative, for any year of the medium term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with section 45 of the MFMA which deals with the repayment of short term debt at the end of the financial year. The forecasted cash and cash equivalents for the 2011/12 adjustment budget shows R7.8 million , R3.8 million and R2.2 million for each respective financial year.

2.2.5.2 Cash plus investments less application of funds

- The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses is contained in Table 24, The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

2.2.5.3 Surplus/deficit excluding depreciation offsets

- The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An adjusted surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming

2.2.5.4 Property Rates/service charge revenue as a percentage increase less macro inflation target

- The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in „revenue", which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

- The factor is calculated by deducting the maximum macro-economic inflation target increase. The result is intended to be an approximation of the real increase in revenue. From the table above it can be seen that the percentage growth totals 27.5, in 2011/12 financial period and 27.9 and 25.6 per cent for 2012/13 and 2013/14 respectively

2.2.5.5 Cash receipts as a percentage of ratepayers and other revenue

- This factor is a macro measure of the rate at which funds are „collected. This measure is intended to analyze the underlying assumed collection rate for the budget to determine the relevance and credibility of the budget assumptions contained in the budget. It can be seen that the outcome is at 0% in 2011/12 financial period and decreased by 0.1 and 1 per cent for each of the respective financial years. In addition the risks associated with objections to the valuation roll need to be clarified and hence the conservative approach, also taking into consideration the cash flow challenges experienced in the current financial year. This measure and performance objective will have to be meticulously managed. Should performance with the mid-year review and adjustments be positive in relation to actual collections of billed revenue, the adjustments budget will be amended accordingly?

2.2.5.6 Debt impairment expense as a percentage of billable revenue

- This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. Considering the debt incentive scheme and the municipality's revenue management strategy's objective to collect outstanding debtors of 90 days, the provision is not well within the accepted leading practice.

2.2.5.7 Capital payments percentage of capital expenditure

- The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a 2 per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

2.2.5.8 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

- The purpose of this measurement is to determine the proportion of a municipality's „own-funded" capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been be excluded. It can be seen that borrowing equates to 0 per cent of own funded capital. The municipality does not borrow money from external stakeholders

2.2.5.9 Transfers/grants revenue as a percentage of Government transfers/grants available

- The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The Municipality has budgeted for all transfers.

2.2.5.10 Consumer debtors change (Current and Non-current)

- The purpose of these measures is to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both measures show a relatively stable trend in line with the Municipality's policy of settling debtor's accounts within 30 days.

2.2.5.11 Repairs and maintenance expenditure level

- This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected.

2.2.5.12 Asset renewal/rehabilitation expenditure level

- This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for „repairs and maintenance budgets.

2.3 Table 24: Expenditure on grants and reconciliations of unspent funds

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
EXPENDITURE ON TRANSFERS AND GRANT PROGRAM:					
Operating expenditure of Transfers and Grants					
National Government:	49,466,000	734,074	50,200,074	54,444,000	57,902,000
Local Government Equitable Share	47,176,000	-	47,176,000	52,144,000	55,552,000
Finance Management	1,500,000	319,600	1,819,600	1,500,000	1,500,000
Municipal Systems Improvement	790,000	414,474	1,204,474	800,000	850,000
District Municipality:	5,000,000	- 1,000,000	4,000,000	-	-
mopani district municipality	5,000,000	- 5,000,000	-	-	-
Mopani grants		4,000,000	4,000,000		
Other grant providers:	-	614,000	614,000	-	-
EPWP		614,000	614,000		
Total operating expenditure of Transfers and Grants:	54,466,000	348,074	54,814,074	54,444,000	57,902,000
Capital expenditure of Transfers and Grants					
National Government:	26,066,921	3,212,812	29,279,734	30,245,000	31,908,000
Municipal Infrastructure Grant (MIG)	26,066,921	3,212,812	29,279,734	30,245,000	31,908,000
Total capital expenditure of Transfers and Grants	26,066,921	3,212,812	29,279,734	30,245,000	31,908,000
Total capital expenditure of Transfers and Grants	80,532,921	3,560,886	84,093,808	84,689,000	89,810,000

- The total adjusted amount are the unspent grants from 2010/11 financial period

Table: 25 reconciliation of transfers, grant receipts, and unspent funds

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
		6	7		
R thousands	A	E	F		
Operating transfers and grants:					
National Government:					
Balance unspent at beginning of the year		4,934,074.23	4,934,074.23		
Current year receipts	49,466,000.00	-	49,466,000.00	54,444,000.00	57,902,000.00
Conditions met - transferred to revenue	49,466,000.00	4,934,074.23	54,400,074.23	54,444,000.00	57,902,000.00
Current year receipts	5,000,000.00	- 5,000,000.00	-	-	-
Conditions met - transferred to revenue	5,000,000.00	- 5,000,000.00	-	-	-
Total operating transfers and grants revenue	54,466,000.00	- 65,925.77	54,400,074.23	54,444,000.00	57,902,000.00
Balance unspent at beginning of the year		3,809,272.87	3,809,272.87		
Current year receipts	26,066,921.28	- 596,460.64	25,470,460.64	30,245,000.00	31,908,000.00
Conditions met - transferred to revenue	26,066,921.28	3,212,812.23	29,279,733.51	30,245,000.00	31,908,000.00
Total capital transfers and grants revenue	26,066,921.28	3,212,812.23	29,279,733.51	30,245,000.00	31,908,000.00
TOTAL TRANSFERS AND GRANTS REVENUE	80,532,921.28	3,146,886.46	83,679,807.74	84,689,000.00	89,810,000.00

2.4. Table 26: Councillor and employee benefits

Summary of remuneration	Budget Year 2011/12		
	Original Budget	Total Adjusts.	Adjusted Budget
Councillors (Political Office Bearers plus Other)			
Salary	3,365,888.65	626,732.15	3,992,620.80
Pension Contributions	607,646.77	390,508.43	998,155.20
Medical Aid Contributions	77,443.00	-	77,443.00
Motor vehicle allowance	1,350,326.16	313,265.84	1,663,592.00
Cell phone allowance	292,944.00	59,712.00	352,656.00
Housing allowance	-	-	-
Other benefits or allowances	200,000.00	489,926.21	689,926.21
In-kind benefits	53,238.62	- 53,238.62	-
Sub Total - Councillors	5,947,487.20	1,826,906.01	7,774,393.21
% increase			3.26

Senior Managers of the Municipality			
Salary	2,599,214.53	-	2,599,214.53
Pension Contributions	749,205.63	-	749,205.63
Medical Aid Contributions	57,060.00	-	57,060.00
Motor vehicle allowance	993,519.84	-	993,519.84
Cell phone allowance	65,640.00	-	65,640.00
Housing allowance	-	-	-
Performance Bonus	142,279.57	-	142,279.57
Other benefits or allowances	39,069.26	-	39,069.26
In-kind benefits	-	-	-
Sub Total - Senior Managers of Municipality	4,645,988.83	-	4,645,988.83
% increase			-
Other Municipal Staff			
Basic Salaries and Wages	19,872,271.76	- 2,203,486.54	17,668,785.22
Pension Contributions	4,128,315.78	- 449,963.03	3,678,352.75
Medical Aid Contributions	791,213.72	- 94,687.20	696,526.52
Motor vehicle allowance	1,264,369.94	- 60,000.00	1,204,369.94
Cell phone allowance	174,502.22	- 400.00	174,102.22
Housing allowance	108,345.60	-	108,345.60
Overtime	300,213.66	79,000.00	379,213.66
Performance Bonus	473,580.43	- 170,440.54	303,139.89
Other benefits or allowances	2,109,783.37	503,757.54	2,613,540.91
In-kind benefits	37,800.00	- 37,800.00	-
Sub Total - Other Municipal Staff	29,260,396.48	- 2,434,019.77	26,826,376.71
Total Parent Municipality	39,853,872.51	- 607,113.76	39,246,758.75

- Councillors remuneration increased from R 5.9 million to R 7.7 million as a result of the councillors upper limit

Supporting Table 27: SB4 Adjustments to budgeted performance indicators and benchmarks

Description of financial indicator	Basis of calculation	2008/9	2009/10	2010/11	Budget Year 2011/12			Budget Year +1 2012/13	Budget Year +2 2013/14
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Prior Adjusted	Adjusted Budget	Adjusted Budget	Adjusted Budget
Borrowing Management									
Borrowing to Asset Ratio	Total Long-term Borrowing/ Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Safety of Capital Debt to Equity	Loans, Creditors, Overdraft & Tax Provision/ Funds & Reserves	7.4%	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gearing	Long Term Borrowing/ Funds & Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Liquidity Current Ratio	Current assets/current liabilities	2.4%	2.4%	2.3%	263.5%	0.0%	263.5%	280.2%	320.0%
Current Ratio adjusted for aged debtors	Current assets/current liabilities less debtors > 90 days/current liabilities	2.4%	2.4%	2.1%	1656.3%	0.0%	0.0%	0.0%	0.0%
Liquidity Ratio	Monetary Assets/Current Liabilities	0.4%	0.1%	0.1%	1.0	0.0	1.0	1.3	1.6
Revenue Management Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/ Last 12 Mths Billing	123.4%	123.4%	95.7%	119.2%			87.1%	88.7%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	7.6%	11.3%	26.0%	15.3%	0.0%	14.3%	15.4%	14.5%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Creditors Management Creditors System Efficiency	% of Creditors Paid Within Terms (within MFMA s 65(e))	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Other Indicators Electricity Distribution Losses (2)	% Volume (units purchased and generated less units sold)/units purchased and generated	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Water Distribution Losses (2)	% Volume (units purchased and own source less units sold)/Total units purchased and own source	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Employee costs	Employee costs/(Total Revenue - capital revenue)	43.4%	38.8%	45.4%	39.6%	0.0%	0.0%	0.0%	0.0%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	0.0%	0.0%	1.5%	2.4%	0.0%	0.0%	0.0%	0.0%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	0.0%	5.2%	8.0%	4.8%	0.0%	5.6%	6.4%	6.5%
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year)	20.9%	20.9%	62.7%	0.0%	0.0%	0.0%	0.0%	0.0%
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	47.3%	62.3%	1.6%	7.9%	0.0%	7.4%	7.4%	6.7%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	0.3%	2.3%		0.2	0.0	0.2	0.1	0.1

Monthly targets for revenue, expenditure and cash flow

See attached copy of the Adjustment Budget for the following table

- TABLE 28 : SB12 - Budgeted monthly revenue and expenditure (municipal vote)

- TABLE 29 : SB13 - Budgeted monthly revenue and expenditure (standard classification)
- TABLE 30 :SB14- Monthly revenue and expenditure
- TABLE 31 : SB15 - Monthly cash flow
- TABLE 32 : SB16 - Monthly capital expenditure (municipal vote)
- TABLE 33: SB17- Monthly capital expenditure (standard classification)

2.5 Capital expenditure details

See attached copy of the Annual Budget for the following tables

- TABLE 34 :SB18A – Capital expenditure on new assets by assets class
- TABLE 35 :SB18C – Capital Expenditure on the renewal of existing assets by assets class
- TABLE 36 :SB18C – Repairs and maintenance expenditure by assets class
- TABLE 37 :SB19 – List of capital programme