

# **ELUNDINI LOCAL MUNICIPALITY**



## **2013/14 -2015/16 ADJUSTMENTS BUDGET**

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## **PART 1 – ADJUSTMENTS BUDGET**

### **1.1 Executive Mayor's Report**

The Municipality reaffirms its commitment to the achievement of the goals enshrined within Vision 2014, namely:

- Meeting basic service delivery needs of communities to improve their lives;
- Building a clean, efficient, responsive and accountable Municipality;
- Strengthening oversight over the Municipality's service delivery and financial performance;
- Changing the socio- economic landscape by investing in Infrastructure, human resource development and promoting enterprise development;
- Strengthening partnerships between the Municipality, communities and civil society.

**COUNCILLOR N. LENGIS**  
**FEB 2014**

## 1.2 **Budget Resolutions**

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

1. That in terms of section 28 of the Municipal Finance Management Act, 56 of 2003, the adjustments budget of the Elundini Municipality for the financial year 2013/2014, and indicative allocations for the two projected outer years 2014/2015 and 2015/2016, and the multi-year and single year capital appropriations be approved as set out in the following tables:
  - a. Budgeted Financial Performance( Revenue and Expenditure by Standard Classification);
  - b. Budgeted Financial Performance( Revenue and Expenditure by Municipal Vote);
  - c. Budgeted Financial Performance( Revenue by Source and Expenditure by Type); and
  - d. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
2. That the revised financial position, cashflow, cash backed reserves/accumulated surplus, asset management and basic service delivery targets be adopted as set out in the following tables:
  - a. Budgeted Financial Position;
  - b. Budgeted Cash Flows;
  - c. Cash Backed Reserves and accumulated surplus reconciliation;
  - d. Asset Management; and
  - e. Basic Service Delivery Measurement

### 1.3 Executive Summary

In accordance with the outcomes of the Mid Year Budget and Performance Assessment conducted and reported in compliance with the provision of Section 72 of the Municipal Finance Management Act, Act 56 of 2003, read in conjunction with section 28(2), the Accounting Officer has proposed a revision of the annual budget, through an adjustments budget.

The Adjustments Budget comprises revisions to the approved Operating and Capital Budgets, which is a requirement of the Constitution and the Municipal Finance Management Act (MFMA). The capital budget generally contain new or replacement assets such as roads, vehicles, buildings, etc. The Operating Budget, which is by far the largest component of the Budget, includes the provision of services, such as electricity, water, refuse collection, etc.

The assumptions and principles applied in the development of the adjustments budget are mainly based upon the actual performance of the Budget in relation to planned performance for the period ending December 2013, coupled with material amendments centering around major funding streams unlocked post adoption of the budget for 2013/2014. The IDP's strategic focus areas informed the development of the adjustments budget, in addition to assessing the relative capacity to implement the Budget, taking affordability considerations into account. The aforementioned guidelines were considered appropriate to inform the development of the revised budget.

The Operating Budget totals R187.5million and excluding depreciation costs of R31.8million its positions at R 155.7 Million, which funds the continued provision of services provided by the Municipality.

The major expenditure items are employee costs (35%), bulk electricity and water purchases (9%), general expenses (34%), repairs and maintenance (5%) and depreciation costs (17%).

Funding is obtained from various sources, the major sources being service charges such as electricity and refuse collection and disposal (38%), property rates (7.%), grants and subsidies received from National and Provincial Governments 55.%).

**A revised provision of R 59 million has been set aside to cover potential bad debts arising from property rates and service charges not collected. This is based upon a level of payment of debtors' accounts averaging 22%.**

The revised Capital Budget amounts R 44.4 million and this is funded mainly through revenue from operations 36.8%), Government grants (63.2%).

The capital expenditure has been affected by the following changes, the MIG allocation has increased by R599 which is a roll over that has been approved by national treasury and it has to be included in the adjusted budget, there's also a roll over of R608 from 2012/2013 for INEP which has also to be bought in the adjustment budget by way of adjustment budget.

It must also be noted that our electricity budget has reduced by R5.8million has been taken back to DME because of non performance, we expect to receive this grant in 2014/15 budget year as per outcomes of the meeting between the municipality and DME.

There are also some additional items that have been provided in the budget e.g R850,000 for mayoral vehicle, R1450,000 for municipal vehicles and refuse truck.

An additional amount of R2.2million from ECDC reserves has been included in the budget to fund electrical projects.

Annexure "A" provides a summary of the capital projects included in the Capital Budget.

Annexure "A"

R'000

MIG projects	R 27 406,178
Electrical projects	R 3 599,435
Solid waste- refuse truck	R 550,000
Traffic – law enforcement vehicles	R 600,000
Mayoral vehicle	R 850,000
Grass cutters	R 130,248
Solid waste contracted services	R 100,000
Network upgrading equipment	R 1 450,000
Furniture manufacturing	R 1 296,838
Rural initiative- craft centre	R 2 700,000
Bulk metering	R 400,000
Street beans	R 200,000
Municipal buildings	R 100,000
Co-operative centre development	R 500,000
Street trading maclear development	R 700,000
Small town regeneration	R 400,000
Sonwabile community hall	R 350,000
Housing scoping	R 70,001
Fire arms	R 110,000
Finance pool vehicle	R 300,000
Other capital items	R 2 575,318
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>R 44 388 018 million</b>

### 1.3.1 Total revised Service Delivery Package of the Municipality and associated financial implications

The Municipality provides the following services:

Services Provided	Operating Expenditure
	R'000
<b>Governance and Administration</b>	<b>73,863</b>
Budget and Treasury	30,490
Corporate Services	20,651
Executive and Council	22,722
<b>Community and Public Safety</b>	<b>13,180</b>
Community and social services	3,057
Housing and Land	495
Economic Development and Recreational Services	9,628
<b>Economic and Environmental Services</b>	<b>60,521</b>
Planning and development	8773
Road Transport	51,748
Environmental Protection	
<b>Trading Services</b>	<b>39,933</b>
Electricity	30,789
Water Service	
Waste Water Management	
Waste Management	9,144
<b>Total Costs</b>	<b>187,497</b>
<b>Funded as follows: -</b>	
Transfers recognised – operating	96,822
Service Charges	21,933
Investment revenue	1,589
Property Rates	13,611
Other Own Revenue	66,156
<b>Total</b>	<b>200,111</b>

### 1.3.2 Effect of the Adjustment Budget

In this section the adjusted Operating and Capital Budgets are discussed.

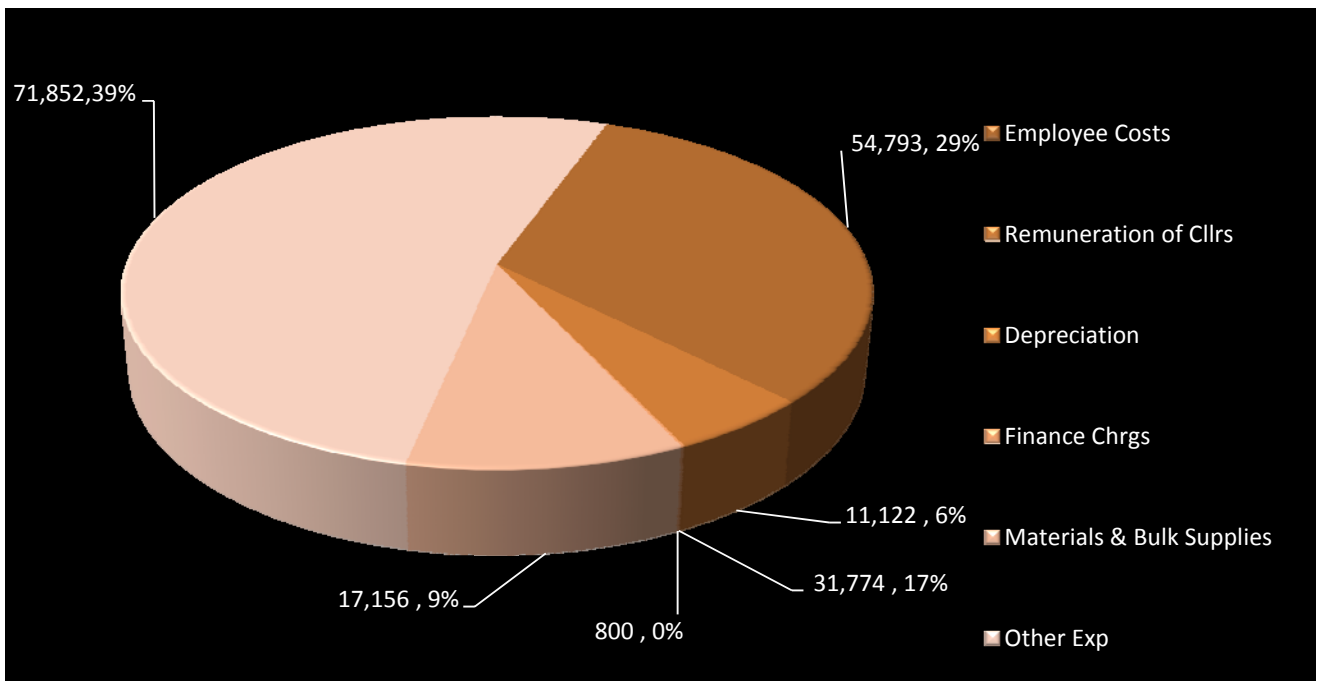
#### 1.3.2.1 Operating Budget

The revised operating budget amounts to R 187,5 million.

The graph below reflects the expenditure components of the budgeted statement of financial performance.

#### 2012/2013 Statement of Financial Performance- Budget Expenditure

R'000





***Below is a discussion of the main expenditure components:***

### ***Employee Costs***

The adjustments budget provision of R54.7 million is more than the original budget.

### ***Depreciation and Asset Impairment***

The 2012/2013 budget provided for R31,7 Million towards the depreciation costs of the organization, this is in relation to the depreciation for previous year and this years acquisitions in order to meet the requirement of directive 4 by including it to the budget. Due to the unbudling exercise non commissioned to ensure full Grap 17 compliance this cost has now been quantified and brought into the budget structure.

### ***Other Materials***

The 2012/2013 budget provided for R 10,2 Million towards repairs and maintenance on all services; the budgetary allocation has increased by R1.6m from R8.6m to R10.2 Million, and reprioritised to other critical functioning of Council.

### ***Other Expenditure***

The 2013/2014 budget provided for R 71,852 million to cover other related expenditure, it is generally understood that the level of financing available to support the IDP's KPA's have historically been curtailed, due to limitations imposed by available cash reserves

The adjustments budget presented has proposed an increased allocation of R 3,827 Million towards the achievement of priorities within the IDP.

Most noticeably, Youth Development, Woman Development, Business development, Mass job creation, Poverty alleviation and general institutional improvement like storm master plan and master systems plan initiatives are all key functional areas being supported by the increased allocations.

The funding of these allocations are as a result of projected savings on internally funded capital projects, savings within projected operational costs, and improvements realised within available cash resources brought about by improved revenue collections.

## ***Sources of Funding***

The Municipality receives its funding from many sources including property rates, services charges and government grants. The following table identifies the revised sources of funding for the current financial year 2012/13.

See table B4

### ***Rates Revenue***

Rates income has been slightly reduced from R13,670 to R13,611. Services income for electricity has increased from R17.4 to R17.9 the increase is due to projection of electricity sales as per current collection rate which is very good at this stage. Solid waste there are no amendments.

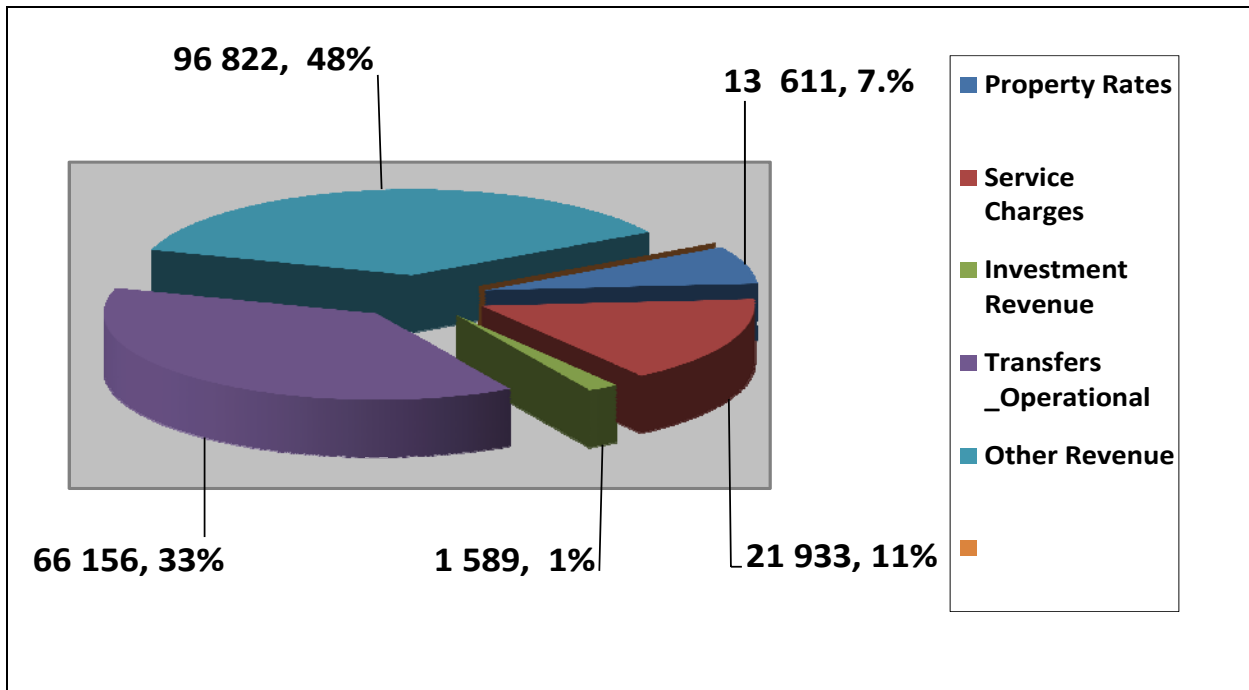
### ***Other Revenue***

The 2013/2014 budget provided for R66.1 Million in other revenue, the funding sources are primarily associated with internal reserve held to finance operational expenditure.

Below is a graph reflecting the revised revenue components of the budgeted statement of financial performance.

**2012/2013 Statement of Financial Performance- Budget Revenue**

**R'000**



### 1.3.2.2 Capital Budget

The revised 2013/14 Capital Budget amounts to R44,3million.

The increase within the capital budget framework is due to a mayoral vehicle of R850,000, law enforcement vehicles of R600,000 and refuse truck of R550,000, street beans of R200,000. It must also be noted that there are roll overs for MIG (R699,000) and INEP(R608,000) that have been approved by treasury to be included in the adjusted budget.

It must also be noted that an allocation R5.8 for INEP has been taken out of the capital budget framework as it has to be returned to treasury due to non compliance, we were also promised by DME that this funding will be garzatted in 2014/2015 budget year. Out of municipal reserves as amount R3million has been brought into the budget in order to fund the electrical projects for 2013/14 budget year.

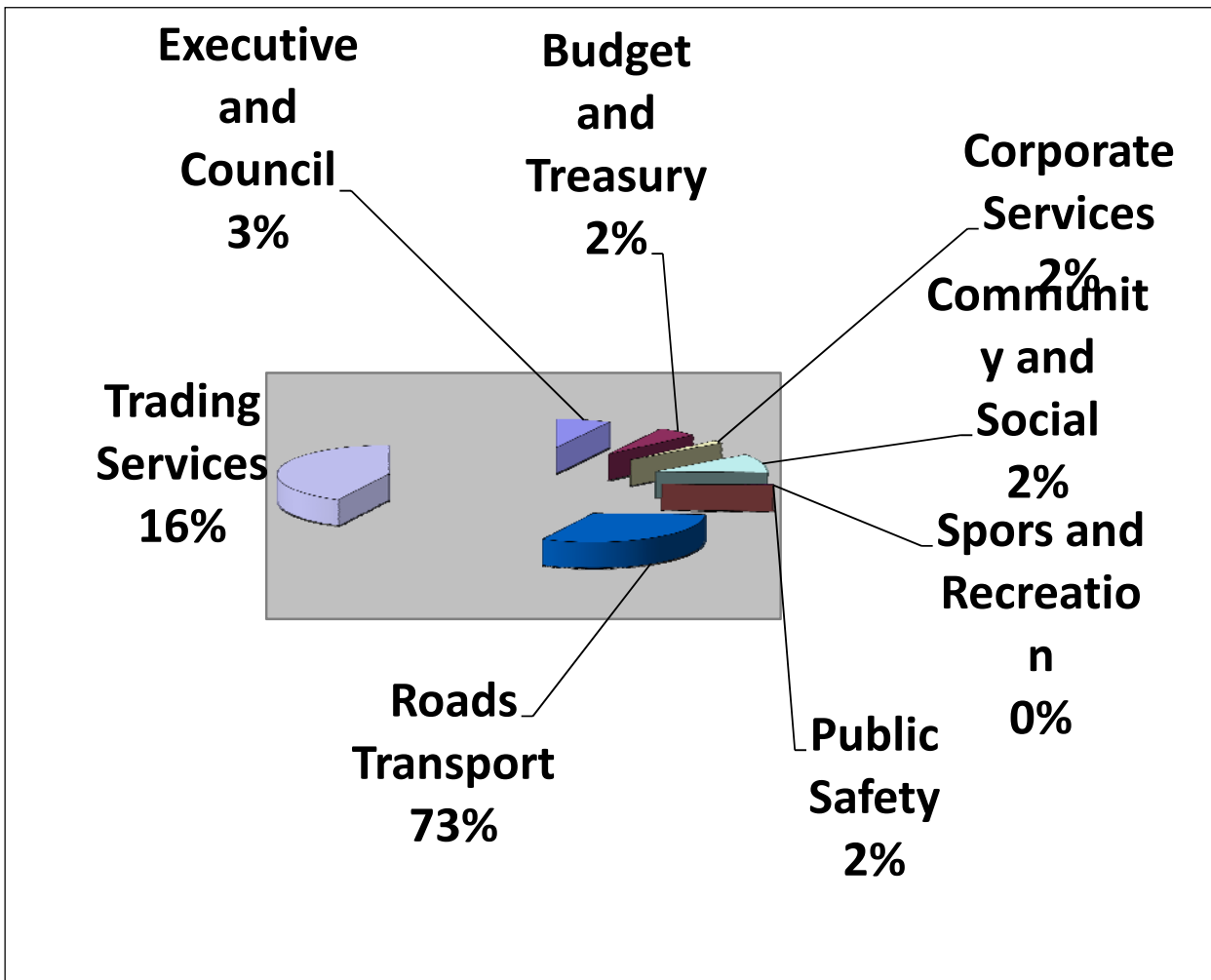
General capital expenditure has increased by R611,651, and furniture manufacturing has increased by R896,838.

The 2013/14 adjusted budget will be funded as follows:

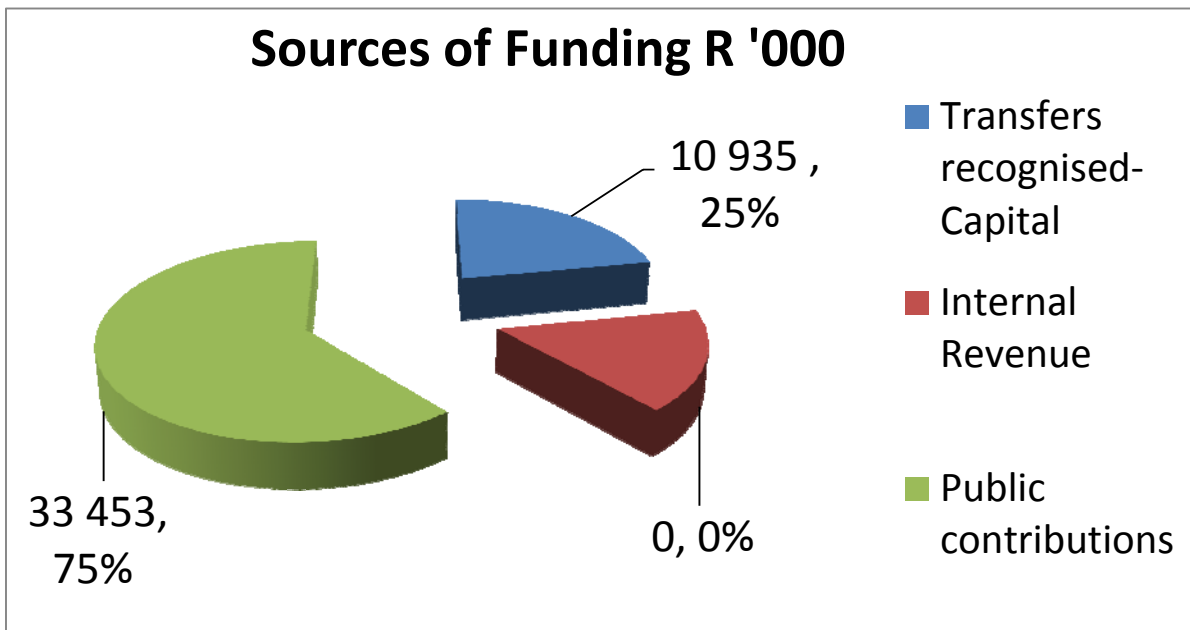
<u>Funded by:</u>	<u>R'000</u>
National Government	33 453
Provincial Government	-
District Municipality	-
Other transfers and grants	-
Transfers recognised - capital	-
Public contributions & donations	-
Borrowing	-
Internally generated funds	10 935
<b>Total Capital Funding</b>	<b>44,388</b>

The graphs below reflect the 2013/14 Capital Budget by Directorate and finance source.

**2013/2014 Capital Budget By Directorate**



### 2013/2014 Capital Sources of Financing



#### **1.3.3 Basic Service Delivery**

In accordance with the original budgeted Basic Service Delivery targets approved, as relates to the original budget, no amendments are proposed based on the adjustments budget presented.

#### **1.3.4 Funding of the Budget**

##### ***Fiscal Overview***

##### ***1.3.4.1 2013/2014 Projected Financial Performance (REVISED)***

The municipality's financial performance and position is sound, and is expected to continue based on the following:

- Budgets are balanced, being funded from the current financial year's revenues.
- The municipality operates within its annual budget, as approved by Council.
- The municipality maintains a positive cash and investments position.
- Planned revenue collection rates are being achieved.

#### **1.3.4.1.1 Operating Budget**

In accordance with the original estimates of revenue and expenditure, the organization planned for a surplus of R 12.6million; based on the revised estimates proposed, expenditure will increase from R160.4million to R187.5 million, revenue will increase from R163,2 million to R200.1,million.

The current financial year's revenues are sufficient to cover the operating expenditures.

The Municipality has implemented a Revenue enhancement strategy, aimed at ensuring the systematic improvement of collections over the MTREF to 80% of billed revenue thereby ensuring sustainable growth and the achievement of the IDP objectives.

#### **1.3.4.1.2 Capital Budget**

The Capital budget framework has shown a significant increase of R3.7 million over the adjusted budget approved allocation, the funding sources secured to fund the capital investment has been sourced from Government Grants amounting to R33.4 million, and R10.9 million being internal revenue sources.

#### **1.3.4.2 Financial Ratios**

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

On the whole the financial positioning of Council is stable as reflective within the Performance indicators and benchmarks.

#### **Ongoing issues requiring monitoring and evaluation**

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

increases in revenue, or commensurate reductions in other services. Consequently, they should be carefully monitored and evaluated:

- Maintenance backlogs in respect of Council's assets – adequacy of budgetary provisions;
- Staffing requirements and the impact on the personnel expenditure target;
- Improvement of current collection rates;
- Reviewing and enhancing the level of the Capital Replacement Reserve, to ensure that the Municipality is able to cover the purchase of new and replacement assets;
- Financial implications associated with the outcomes of the Section 78 processes- Solid Waste.
- Electricity distribution losses

### **1.3.5 Medium Term Revenue and Expenditure**

The revised Projected Financial Results over the MTEF are as follows:

See table B4

### **1.3.6 Priorities and linkages to the SDBIP**

Adjustment to budgeted performance and indicators

## **1.4 Annual Budget Tables**

The annual budget tables are included in this section.

### **1.4.1 Budget Summary**

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

Taking the aforementioned budget strategy, assumptions and principles into consideration the revised 2012/13 to 2014/15 Budget was arrived at as follows:



See attached table B1

#### **1.4.2 Consolidated Financial Performance 2012/13-2013/14**

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

See attached table B2

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

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

See attached table B3

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

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

See attached table B4

#### **1.4.3 Capital Budget Summary**

Taking the aforementioned constraints into account the following capital budget was arrived at.

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

Table A5 seeks to meet three requirements, namely it shows:

- Adjusted capital expenditure by municipal vote;
- Adjusted capital expenditure by standard classification; and
- Adjusted funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial governments that fund the capital budget.

See attached table B5

#### **1.4.4 Budgeted Financial Statements**

The financial statements below identify the financial viability of the Municipality. It is evident from this statement that value of the Municipality is increasing and liquidity although appropriate at this point of time, will require monitoring.

##### **1.4.4.1 Table B6 Budgeted Financial Position**

The table presents Adjusted Assets less Liabilities as Community Wealth. The order of items within each group is also aligned to the convention of showing items in order of liquidity; i.e. assets readily converted to cash or liabilities immediately required to be met from cash appear first.

See attached table B6

##### **1.4.4.2 Table B7 Budgeted Cash Flows**

Table B7 includes, some specific features:

- Clear separation of receipts and payments within each cash flow category
- Clear separation of capital and operating receipts from Government, and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt)

##### **1.4.4.3 Table B8 Cash backed reserves/accumulated surplus reconciliation**

The underlying purpose of the table is to reflect the predicted cash and investments that are available at the end of a particular budget year and how those funds were used. A surplus would indicate that sufficient cash and investments was available to meet commitments, whilst a shortfall would indicate inadequate cash and investments was available to meet commitments.

See attached table B8

#### **1.4.5 Table B9 Asset Management**

This table provides a summarised version of the adjusted capital programme divided into new assets and renewal of existing assets and also reflects the relevant asset categories. The associated repairs and maintenance and depreciation is also reflected.

It also provides an indication of the resources deployed for maintaining and renewing existing assets, as well as the extent of asset expansion.

See attached table B9

#### **1.4.6 Table B10 Basic service delivery measurement**

This table provides basic service delivery information that the municipality approves basic service delivery targets aligned to national priorities.

See attached table B10

### **2.2 Overview of Budget Funding**

#### **2.2.1 Funding the Budget**

##### **2.2.1.1 Funding of operating expenditure**

The Municipality's revised operating expenditure is mainly funded from sources such as property rates, service charges and government grants. The table below reflects the funding sources:

See table B4

##### **2.2.1.2 Funding of capital expenditure**

The Municipality's revised capital expenditure is mainly funded from sources such as Internally generated funds, public donations and government grants. The table below reflects the funding sources:

See table B4



### 2.2.3 Estimated Collection Levels

The estimates informing the original approved budget of 80% collection rate for 2013/2014 has been maintained, this is primarily due to the fact that the formal implementation of the Revenue Enhancement Strategy has commenced on 1 March 2011, and it is expected that material improvements will only accrue to the organization within the 2013/2014 fiscal year. In line with planned performance and budget assumptions the collection rate improvement for 2012/2013 is modeled around 60%, increasing to a targeted level of 80% by 2013/14.

### 2.2.4 Particulars of Monetary Investments held

Monetary investments underpinning the adjusted budget have decreased to R30,031 Million from the original estimates held.

EC141 Elundini - Supporting Table Investment particulars by maturity

Investments by Maturity	Ref	Period of Investment	Type of Investment	Expiry date of investment	Monetary value	
Name of institution & investment ID	1	Yrs/Months			Rand thousand	
<u>Parent municipality</u>						
First National Bank		3 Months	Call Accounts		21,366	
Standard Bank		3 months	Call Accounts		8,664	
ABSA Bank		3 months	Call Accounts		-	
Municipality sub-total					30,031	
TOTAL INVESTMENTS AND INTEREST	1				30,031	

### 2.3 Expenditure on allocations and grant programmes

**Adjustment to contributions**

In accordance with the adjusted budget presented, the organization has recognized public contributions towards capital expansion programmes in the sum of R 56,857 million.

See attached table SB7

**Adjustments to expenditure on allocations and grants programmes**

See attached SB8

**Allocations or Grants made by the Municipality**

No grant allocations are made by the municipality

See attached SB9

**2.4 Councillors and board members allowances and employee benefits provide the following information**

## **COUNCILLORS & BOARD MEMBER ALLOWANCES AND EMPLOYEE BENEFITS**

Amendment to the budget have been primarily brought about by the re-introduction of the overtime policy as relates to essential services; new positions that have been brought forward into the adjustment budget.

See attached SB 11

### **6 Adjustment to service delivery and budget implementation plan**

**See table SB12**

#### **2.6.1 Monthly targets for Revenue, Expenditure and Cashflow**

**See attached SB 13**

**See attached SB14**

Cash flows per source document.

#### **2.5 Adjustments to Capital expenditure**

Capital expenditure is detailed by asset type, See attached SB18a table.

## **2.8 Municipal Manager's Quality Certification**

### **Quality Certificate**

**I, Khaya Gashi, Municipal Manager of Elundini Local 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**

**Print Name** \_\_\_\_\_

**Municipal Manager of Elundini Local Municipality Municipality (EC41)**

**Signature** \_\_\_\_\_

**Date** \_\_\_\_\_