

ELUNDINI LOCAL MUNICIPALITY



2016/2017 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 2017, 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 2017

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 2016/2017, and indicative allocations for the two projected outer years 2017/2018 and 2018/2019, 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 2016, coupled with material amendments centering around major funding streams unlocked post adoption of the budget for 2016/2017. 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 Revenue totals R356.9 million and excluding depreciation costs of R45.7 million and debtors impairment of R20 million positions at R 291.2 Million, which funds the continued provision of services provided by the Municipality.

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

Annexure “A”

R'000

MIG projects	R 35 387 500
Network upgrading equipment	R 1 750 000
Municipal buildings	R 2 630 000
Mayoral vehicles	R 1 700 000
Motor vehicles	R 1 750 000
Plant & machinery	R 4 403 000
Capital spares Mbidlana	R 2 044 280
Streets lights	R 200 000
Roads capital projects	R 400 000
Small Town regeneration	R 500 000
Access control	R 300 000
Vehicle testing station	R 4 000 000
Guard houses	R 500 000
High mast	R 1 834 000
Other Capital Items	R 1 735 833
Total Capital Expenditure	R 59 134 613

1.3.2 Effect of the Adjustment Budget

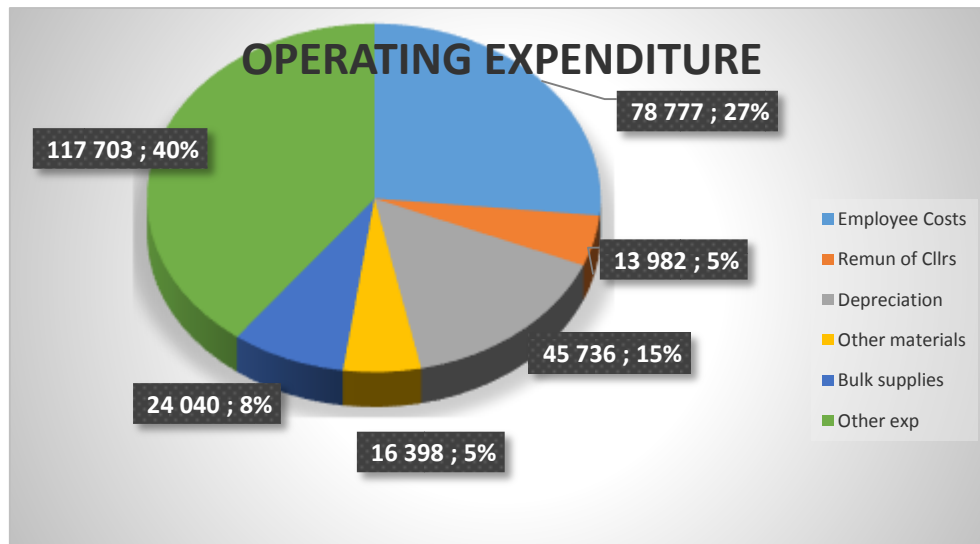
In this section the adjusted Operating and Capital Budgets are discussed.

1.3.2.1 Operating Budget

The revised operating expenditure budget amounts to R 296,6 million.

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

R'000



Below is a discussion of the main expenditure components:

Employee Costs

The adjustments budget provision of R92.7 million and there is a reduction of R3.6 million when compared to the original budget of R96.3.

Depreciation and Asset Impairment

The 2016/2017 budget provided for R45.7 Million towards the depreciation costs of the organization, this is in relation to the depreciation for previous year and this year's acquisitions in order to meet the requirement of directive 4 by including it to the budget.

Other Materials

The 2016/2017 budget provided for R 16.3 Million towards repairs and maintenance on all services; the budgetary allocation has decreased by R300 000 due to low spending on maintenance projects.

Other Expenditure

The 2016/2017 original budget the council has provided an amount of R53.4 million to cover other related expenditure, on the adjustments budget this amount has increased to R67.4 million to support the IDP's KPA's.

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 2016/17.

See table B4

Rates and Services Revenue

Rates income has increased to R20.6 million and when we less the rebates of R2.9 million we left with R17.7 million that we anticipate to collect, services income from solid waste has decreased from R4.7 to R4.6 million when aligned with projections.

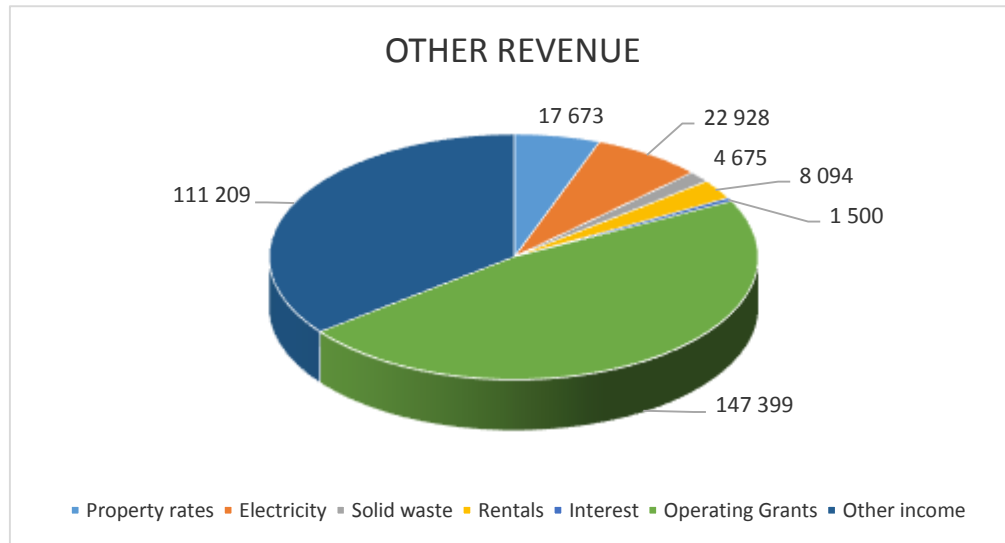
Other Revenue

The 2016/2017 budget provided for R111.2 million including non-cash funding for depreciation and debt impairment costs, 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.

2016/2017 Statement of Financial Performance- Budget Revenue

R'000



1.3.2.2 Capital Budget

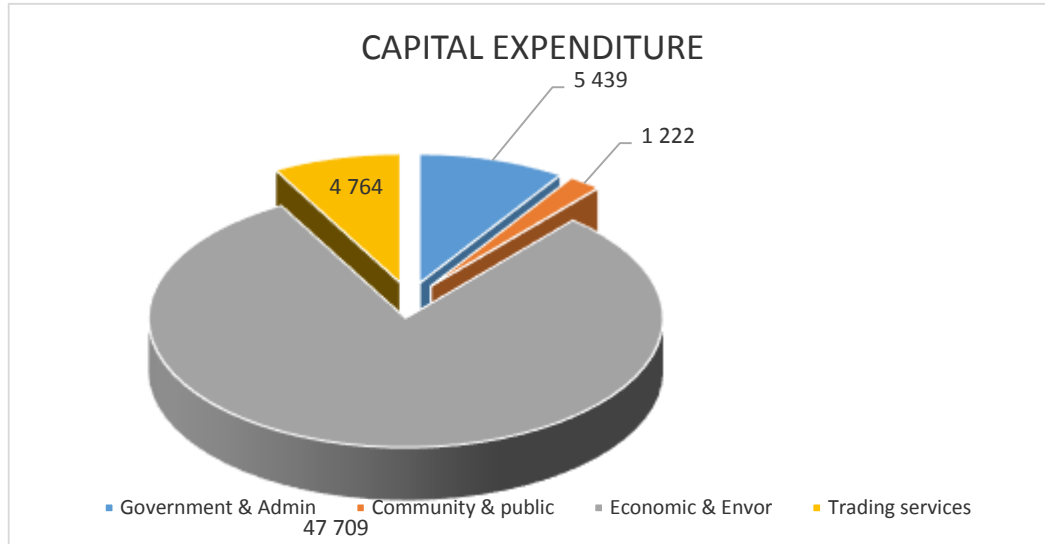
The revised 2016/17 Capital Budget amounts to R59.1 million which is more than the original figure of R53.3 million. It must also be noted that there are additional projects that were included in the adjusted budget that were not on the original budget.

See Annexure A on page 6 in respect of Capital budget list.

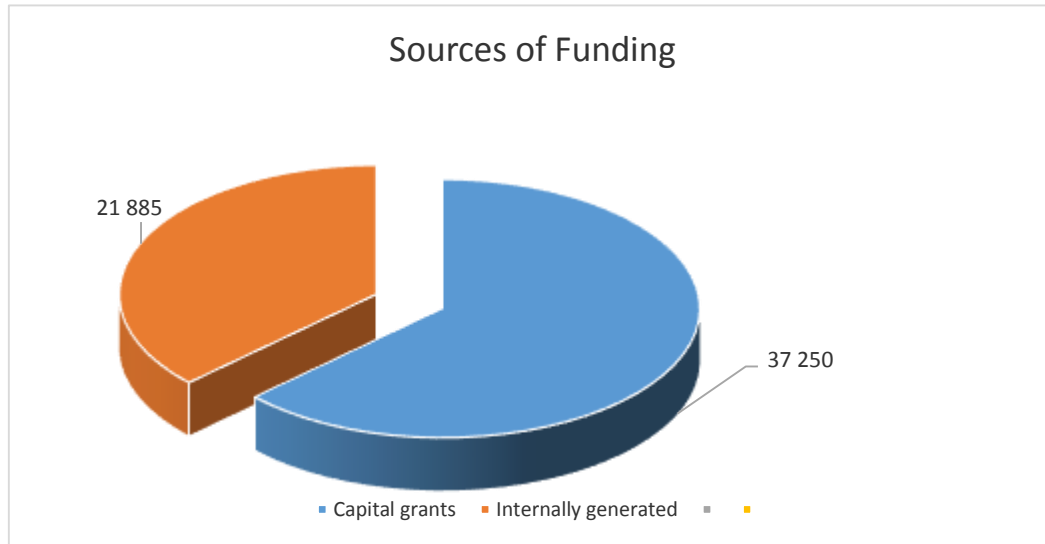
The 2016/17 adjusted budget will be funded as follows:

Funded by:	R'000
National Government	37,250
Provincial Government	-
District Municipality	-
Other transfers and grants	-
Transfers recognised – capital	-
Public contributions & donations	-
Borrowing	-
Internally generated funds	21,885
Total Capital Funding	59,135

The graphs below reflect the 2016/17 Capital Budget by Directorate and finance source.



2016/2017 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 2016/2017 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 59.1 based on the revised estimates proposed, expenditure has increase from R246 million to R296 million, revenue will also increase from R295 million to R319.7 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 100% 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 an increase of R5.8 million when compared with the original budget, the funding sources secured to fund the capital investment has been sourced from Government Grants amounting to R37,2 million, and R21.9 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 utilized for capital expenditure, financial position, cash and funding compliance.

Taking the aforementioned budget strategy, assumptions and principles into consideration the revised 2016/17 Budget was arrived at as follows:

See attached table B1

1.4.2 Consolidated Financial Performance 2016/17-2017/18

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 summarized 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 B5

2.2.3 Particulars of Monetary Investments held

Monetary investments underpinning the adjusted budget have increased to R80.5 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	
Parent municipality						
First National Bank		3 Months	Call Accounts		6 738	
Standard Bank		3 months	Call Accounts		73 790	
Municipality sub-total					80.528	
TOTAL INVESTMENTS AND INTEREST	1				80.528	

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 17.1 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

Cash flows per source document.

See attached SB14

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 _____