Swartland Municipality (WC015)

Adjustment Budget 2011/12 – 2013/14

Adjusted Medium Term Revenue and Expenditure Framework

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Glossary

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

Allocations – Money received from Provincial or National Government or other municipalities.

Budget – The financial plan of the Municipality.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Virement - A transfer of budget.

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

PART 1 – ANNUAL BUDGET

Section 1 – Mayor's Report

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

I am specifically pleased to announce that our budget now materially complies with the latest budget regulations as well as the requirements of the National Treasury. The municipality utilised the solid base created in the prior year to build on and refine the budgeting processes, for which I must thank the Chief Financial Officer and his staff for the tremendous effort.

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

I believe the municipality is well positioned in terms of its financial position, but we can never rest on our laurels. To this end I am pleased to announce that the Municipal Manager took the initiative to drive a process of setting standards based on best practises for the Western Cape municipalities. This initiative is well supported by, not only the Mayors and Municipal Managers of all the municipalities, but also the Minister Of Local Government and the Provincial Departments of Local Government and Treasury. We expect the first set of data collected from all the municipalities in the near future, from where it will be refined with input from all other municipalities. The final set will give clear benchmarks against which we can measure our own performance.

During the approval of the Multi-year Capital and Operating Budget for 2011/12 to 2014, it was brought to the Council's attention that the 2011/2012 Operating Budget closed with an operating deficit of R45 633 239 which, by implication, means that the Council's income sources is not sufficient enough to finance its Operating expenses.

The main adjustments proposed in this adjustment budget are:

Operating Budget

There have been a few important changes to the operating budget that council should take cognisance of. These changes make up the bulk of the reason why we have moved from a deficit of R 45 633 239 to a deficit of R 49 091 471.

On the expenditure side,

1. Interest on external loans decreased from R15 964 156 to R14 937 566 (-R1 026 590) due to the early settlement of two of our external loans with DBSA.
2. R400 000 was added to the expenditure budget for the breaking down of the Boland Storage.
3. R3 087 461 was added to the expenditure budget for the Abbotsdale: Private Sewerage Connections.The source of finance in this regards will be the surplus account in which the unspend portion of the unconditional grants is.
4. R700 000 was added to the Valuations vote which increased from R1 332 104 to R2 032 104.
5. R200 000 was added for Supplementary valuations which was not originally budgeted for.

On the income side,

1. R900 000 was added for Special Bulk Wasting.(contract with Bergriver Municipality). This was a income not originally budgeted for.
2. We received approval from National Treasury to roll over the following unspent conditional grants from 10/11: R453 351 (MSIG) and R355 330 (FMG).
3. We will be receiving R3 208 000 from the Department of Cultural Affairs and Sport for our libraries which is additional to the R615 000 that was allocated to us in DORA.
4. We will be receiving R300 000 from Provinvial Treasury (Financial Management Support Grant) which was not originally budgeted for.

The net effect from these adjustments is that the projected ***deficit*** for the year, before capital grants revenue, increased from R58.857 million to R63.137 million. The net deficit, after capital grants revenue, is estimated to be R 49.091 million.

Capital Budget

The expected investment in infrastructure remains high, to such an extent that current cash flows cannot sustain it and are we forced to utilise previously accumulated cash reserves as well as funding from external sources to fund part of the projects.

An external loan of R 105 million was secured in the 2011/2012 financial year to support the investment program over the next 3 years. However, the municipality believes it is strategically important to invest timely in infrastructure, and especially water, sanitation and roads, to cater for the expected growth in the near future and projected future capital funding requirements remains high.

The main changes to the capital budget are as follows:

1) An increase in planned expenditure by R 3.262 million. This increase is mainly due to the following adjustments:
    a. Increase in planned expenditure relating to the upgrading of road infrastructure in the municipal area – R 4.723 million
    b. Decrease in water and sanitation infrastructure – R 3.993 million. This decrease is mainly attributable to the decrease in estimated cost of the Malmesbury, Riebeek Wes and Riebeek Kasteel sewerage works.
    c. Increase in planned expenditure relating to the upgrading (new tiles and surface) of the municipal swimming pool amounting to R 1.257 million.
2) The following adjustments to the sources of financing are also proposed
    a. An increase in funding from grant providers – R 0.822 million
    b. A decrease in funding from external loans – R 36.681 million
    c. An increase in funding from internally generated funds (accumulated cash reserves) – R 39.122 million.

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

TYPE	2011/2012	2012/2013	2013/2014
Operating	422 570	447 838	503 726
Capital	99 611	94 526	56 276
TOTAL	**522 181**	**542 364**	**560 002**

Other

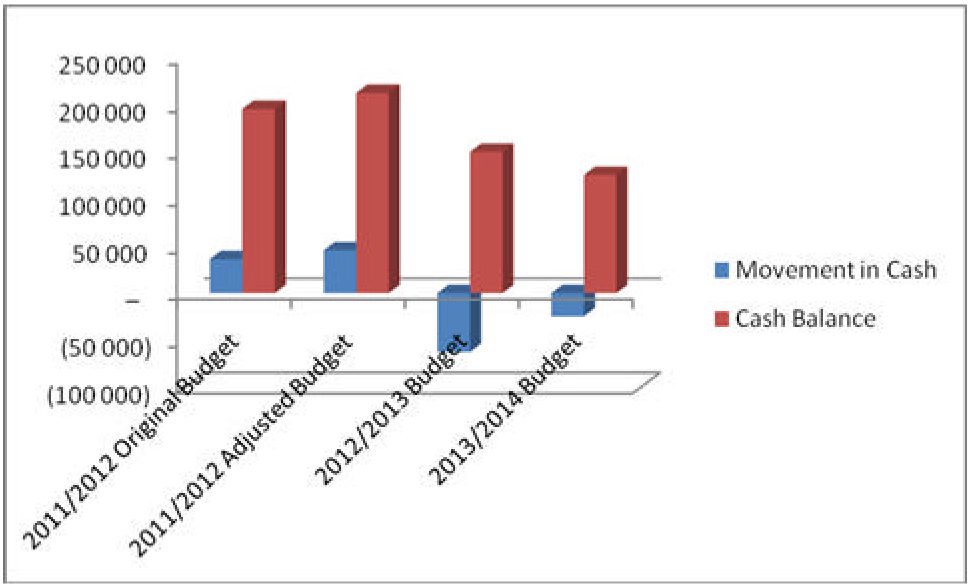
As made known to council on previous occasions, depreciation is still being calculated using the principals of GRAP17. However, the huge effect GRAP 17 has on our operating budget is temporary. In circular 58, sec 4.3 it states that "Therefore municipalities that have chosen the 'revaluation model' when implementing GRAP 17 must exclude the depreciation resulting from the revaluation of PPE when preparing their budgets and calculating any tariff increases". This in essence means that depreciation will be calculated before unbundling.This will be implemented in the draft and final budgets and is sure to bring some relief to the consumer.

Funding and Cashflows

The municipality secured external funding amounting to R 105 million in the 2011/2012 financial year, to alleviate the pressure on internally generated cash flows to support its capital program. This loan will be utilised over the MTREF period. The municipality's loan commitments are being monitored closely in order to limit it to affordability levels.

The expected Cash flows for the MTREF period is as follows– R '000

Source	**2011/2012**	**2012/2013**	**2013/2014**
Generated Operating inflows	23 220	14 300	17 052
Capital Grants inflows	14 046	14 559	15 359
Land Sales inflows	6 957	9 335	5 710
Nett Financing inflows	100 718	(6 233)	(6 418)
Net cash inflows	**144 941**	**31 961**	**31 703**
Outflows - Investment in Assets	(99 611)	(94 526)	(56 276)
Net inflows / (outflows)	**45 330**	**(62 565)**	**(24 573)**



As can be seen from the above the municipality's cash resources will decline by R 41.808 million over the MTREF period. However, we believe that increased service delivery, as well as developer contributions from new developments in the near future, will more than recover these investment costs.

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

Unforeseen and unavoidable expenditure

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

Changes to allocations and grant adjustments

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

The adjustments for the financial year are as follows:

Description R thousands	Budget Year 2011/12		
	Original Budget	Total Adjusts.	Adjusted Budget
<u>**Operating expenditure of Transfers and Grants**</u>			
National Government:	**24 927**	**(1 493)**	**23 434**
Equitable share	22 887	(2 302)	20 585
Municipal Systems Improvement	790	453	1 243
Finance Management	1 250	355	1 605
Provincial Government:	**12 917**	**3 422**	**16 338**
Community Development: Workers	52	(26)	26
Housing	11 578	108	11 686
Libraries	615	3 208	3 823
Proclaimed Roads Subsidy	172	–	172
Ilinge Lethu Centre	500	(363)	137
SDF	–	147	147
Housing Consumer Education Grant	–	47	47
Financial Management Support Grant	–	300	300
Other grant providers:	–	79	79
Cleanest Town	–	79	79
Total operating expenditure of Transfers and Grants:	**37 844**	**2 008**	**39 852**
<u>**Capital expenditure of Transfers and Grants**</u>			
National Government:	**11 974**	**72**	**12 046**
Municipal Infrastructure (MIG)	11 974	–	11 974
Equitable share	–	72	72
Provincial Government:	**1 250**	**–**	**1 250**
PAWK	1 250	(500)	750
Ilinge Lethu Centre	–	500	500
Other grant providers:	**–**	**750**	**750**
Lotto	–	150	150
Cleanest Town	–	600	600
Total capital expenditure of Transfers and Gran ts	**13 224**	**822**	**14 046**
Total capital expenditure of Transfers and Grants	**51 068**	**2 830**	**53 898**

With reference to what has been discussed above as background, the Adjusted 2011/2012 Capital and Operating Budgets are presented to the Executive Mayoral Committee for council's consideration for approval on 26 January 2012.

Recommendations

1) That approval be granted for the virement of funds from one capital project to another as indicated in the attached schedule in respect of capital items in the 2011/2012 capital adjustments budget, as well as unspent capital and new suggested projects for 2011/2012 due to the urgency thereof;

2) That the Director: Financial Services adhere to the statutory requirements of the MFMA and circulars from National Treasury (" Budget Reforms ") and inform National and Provincial Treasury accordingly;

3) That it be noted that the changes in the budget will have no financial implications in terms of an increase in tariffs in respect of the 2011/2012 financial year;

4) That approval be granted for the transfer of unspent funds from government grants in respect of the 2010/2011 financial year as indicated in Council's financial statements as on 30 June 2011;

5) That the Executive Mayoral Committee take note of the financial implications of depreciation on the unbundling of assets and the deficit it causes on the operating budget. Further that council should take cognisance that this is temporary and depreciation will be calculated by excluding the depreciation resulting from the revaluation of PPE (ref. Circular 58 sec. 4.3) with the tabling of the draft and final budgets;

6) That approval be granted to amend the capital and operating budget for 2011/2012 as follows:

	FROM	TO
Capital:	R 96,348,657	R 99,610,838
Operating expenditure:	R 416,987,464	R 422,570,311
Operating income:	R 350,821,825	R 352,124,441
Deficit i.t.o GRAP:	R -45,633,239	R -49,091,471
Total revenue:	R 371,354,225	R 373,478,841
Operating deficit:	R -65,342,947	R -70,245,871

7) That council seriously take note that the Housing Development Fund is no longer liquid. The deficit increased from R822 692 to R1 021 912 and only R200 000 more or less can be contributed to ease the burden in the operating account. Aforesaid will increase the burden on rates and taxes;

8) A further area of concern is that there is not enough cash available to contribute to the Capital Replacement Reserve Fund to fund further capital projects. This lack of cash constitutes from the fact that cash expenditure exceeds the income. If the budget goes according planning, the only contribution that council will be able to contribute to the CRRF is the sale of land to the amount of R7 308 400 and the remainer of the portion of cash for depreciation R9 775 670. The other portion of depreciation R5 337 636, is earmarked for the redemption of external loans which must be in cash.

Section 2 - Budget Related Resolutions

Swartland Municipality

MTREF 2011/2012

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

RESOLVED:

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

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

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

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

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

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

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

Section 3 - Executive Summary

Introduction

The budget is the second adjustments budget of the municipality which is in the formats prescribed in the new Budget Regulations. Thus, no material adjustments to the budget formats were required from the budget submission made in the preceding year.

Effect of the adjustment budget

A key consideration for the compilation of the adjustments budget was long term financial sustainability and especially stabilising the cash flow position, while also ensuring continued service delivery and improved service delivery. In addition, the Council planned and budgeted for the expected growth in the near future and the effect it will have on bulk services provision.

The Council also started to benchmark itself against other local governments in terms of service delivery and tariff structures and started a process to establish strategies to deal with powers and functions, capital requirements, maintenance of assets, tariffs and the identification of other sources of revenue. In addition, the Council took a leading role in establishing best practise standards for local government in the Western Cape, the first of such to be developed during the current financial year.

The new projected forecasts for the MTREF are as follows:

OPERATING BUDGET

Type (R Thousands)	2011/12	2012/13	2013/14
Revenue	373 479	406 108	461 322
Expenditure	422 570	447 838	503 726
Surplus/(Deficit)	**(49 091)**	**(41 730)**	**(42 404)**
Less: Capital Grants	(14 046)	(14 559)	(15 359)
Surplus/(Deficit) excluding capital expenditure	**(63 137)**	**(56 289)**	**(57 763)**

As can be seen from the above, it is projected that the expenditure will exceed the revenue by more than R50 million per year. This might seem to be problematic, however, this is mainly due to the increased depreciation because of the way a deemed cost approach was followed with the unbundling of the infrastructure assets. This depreciation alone is in excess of R55 million per annum. In the latest circular from National Treasury it is indicated that this difference must be offset against a Revaluation Reserve, but as this is against the Accounting Standards principles it will lead to unauthorised expenditure if treated correctly in terms of GRAP, and for that reason this amount has been budgeted according to the accounting principles. To this end the Municipal Manager is investigating the possibility of reducing this amount to a level consistent with other municipalities which do not have this problem.

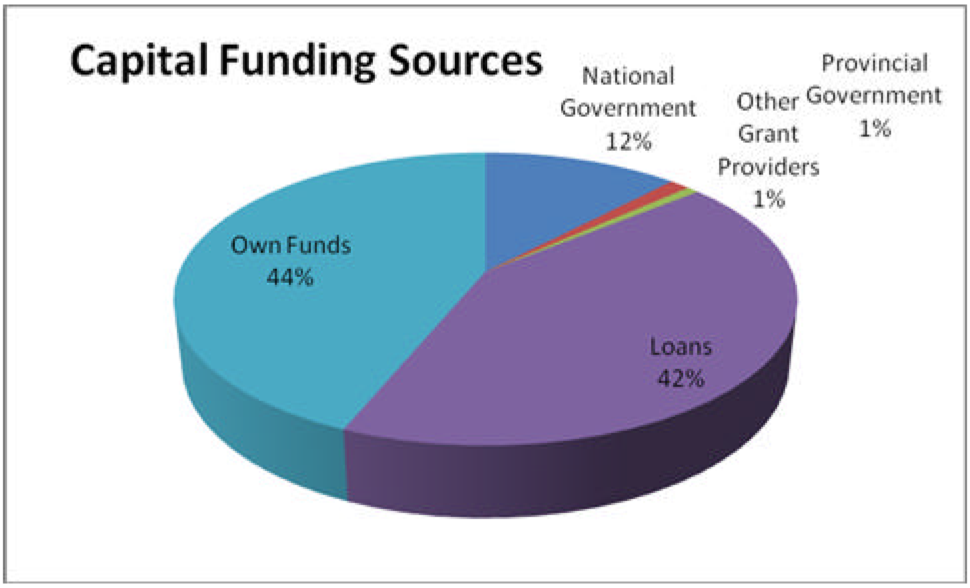
CAPITAL BUDGET

Objective	**2011/12**	**2012/13**	**2013/14**
Governance and Admin	1 065	1 457	1 387
Community and Safety Services	4 911	4 057	808
Economic Services	16 967	12 336	16 253
Trading Services	76 668	76 657	37 828
Total	**99 611**	**94 526**	**56 276**

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

Funding Source	**2011/12**	**2012/13**	**2013/14**
National Government	12 046	14 559	15 359
Provincial Government	1 250	-	-
Other Grant Providers	750	-	-
Loans	41 991	41 002	2 997
Own Funds	43 574	38 965	37 920
Total	**99 611**	**94 526**	**56 276**

The reliance on internally generated funding as well as external borrowing to fund the capital program in 2011/2012 is clearly depicted in the following chart, with more than 80% of the funding coming from these sources.



BUDGET SUMMARY

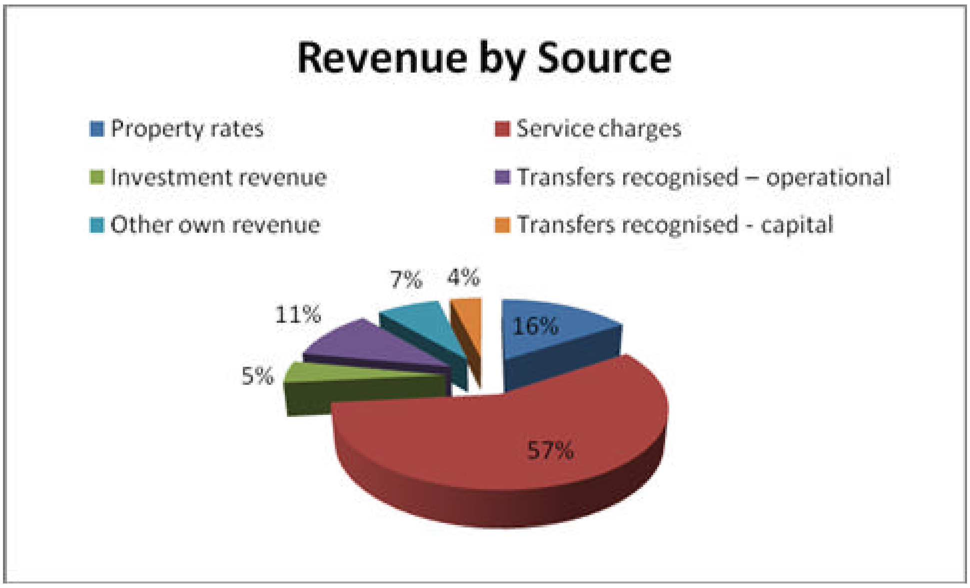
A summary of the revised budget is as follows:

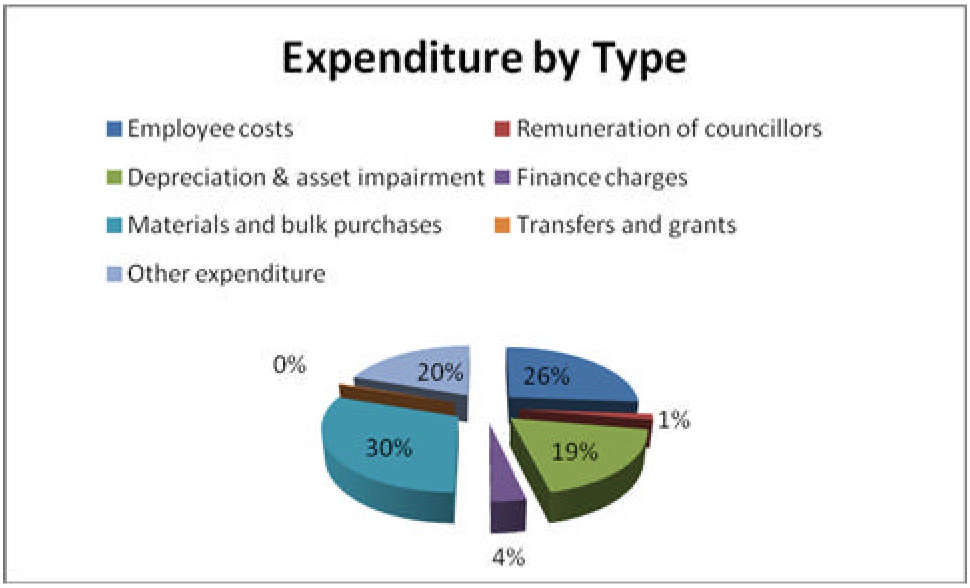
Description	Budget Year 2011/12			Budget Year +1 2012/13	Budget Year +2 2013/14
R thousands	Original Budget	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
<u>Financial Performance</u>					
Property rates	58 908	–	58 908	63 620	68 860
Service charges	215 201	–	215 201	256 623	309 473
Investment revenue	17 280	–	17 280	12 193	9 303
Transfers recognised – operational	37 844	2 008	39 852	27 495	29 264
Other own revenue	28 898	(706)	28 192	31 617	29 063
Total Revenue (excluding capital transfers and contributions)	**358 130**	**1 303**	**359 433**	**391 549**	**445 963**
Employee costs	110 559	–	110 559	119 763	130 175
Remuneration of councillors	6 554	–	6 554	7 006	7 489
Depreciation & asset impairment	78 958	–	78 958	81 364	82 330
Finance charges	16 057	(1 027)	15 030	15 347	14 911
Materials and bulk purchases	127 499	–	127 499	159 012	199 063
Transfers and grants	1 296	–	1 296	1 313	1 331
Other expenditure	76 065	6 609	82 675	64 033	68 428
Total Expenditure	**416 987**	**5 583**	**422 570**	**447 838**	**503 726**
Surplus/(Deficit)	(58 857)	(4 280)	(63 137)	(56 289)	(57 763)

Transfers recognised - capital	13 224	822	14 046	14 559	15 359
Surplus/ (Deficit) for the year	**(45 633)**	**(3 458)**	**(49 091)**	**(41 730)**	**(42 404)**
Capital expenditure & funds sources					
Capital expenditure	96 349	3 262	99 611	94 526	56 276
Transfers recognised - capital	13 224	822	14 046	14 559	15 359
Borrowing	78 673	(36 681)	41 991	41 002	2 997
Internally generated funds	4 452	39 122	43 573	38 965	37 920
Total sources of capital funds	**96 349**	**3 262**	**99 611**	**94 526**	**56 276**
Financial position					
Total current assets	238 535	17 429	255 964	196 823	176 097
Total non current assets	1 536 522	211 038	1 747 560	1 760 694	1 734 610
Total current liabilities	52 477	1 664	54 141	55 048	55 038
Total non current liabilities	188 056	(144)	187 912	182 728	178 333
Community wealth/Equity	**1 534 523**	**226 948**	**1 761 471**	**1 719 741**	**1 677 337**
Cash flows					
Net cash from (used) operating	24 531	12 688	37 219	28 833	32 385
Net cash from (used) investing	(89 345)	(3 262)	(92 607)	(85 166)	(50 540)
Net cash from (used) financing	100 810	(92)	100 718	(6 233)	(6 418)
Cash/cash equivalents at the year end	**195 557**	**17 016**	**212 573**	**150 009**	**125 435**
Cash backing/surplus reconciliation					
Cash and investments available	195 557	17 016	212 573	150 009	125 435
Application of cash and investments	190 588	21 227	211 815	148 623	123 050
Balance - surplus (shortfall)	**4 970**	**(4 211)**	**759**	**1 386**	**2 386**
Asset Management					
Asset register summary (WDV)	1 536 041	211 038	1 747 079	1 760 240	1 734 186
Depreciation & asset impairment	78 958	–	78 958	81 364	82 330
Renewal of Existing Assets	96 349	3 262	99 611	94 526	56 276
Repairs and Maintenance	16 802	300	17 102	17 189	17 888

It is important that the municipality's cash position remains at acceptable levels and is it rather the cash position than the Surplus/Deficit which must be measured in order to determine whether the budget is actually sound. As can be seem from the above tables the cash position declines from an expected R212.573 million to R 125. 435 million in year three. The main reason for the decline, or rather the excessive opening balance, is the unspent loan which is being utilised over the next three years for capital programs. More detail about the cash position is listed in Section 8 below.

The revenue and expenditure for the 2011/2012 year could be illustrated as follows to show the composition thereof.





Section 4 – Adjustment budget tables

The adjustments budget tables are attached to this document as Tables B1 to B 10. Tables supporting the above (SB1 to SB20) are also attached and listed separately.

The Budget tables are:

Table B1 – Adjustments Budget Summary

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

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

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

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

Table B6 – Adjustments Budgeted Financial Position

Table B7 – Adjustments Budgeted Cash Flows

Table B8 – Adjustments Cash backed reserves/accumulated surplus reconciliation

Table B9 – Adjustments Budget Asset Management

Table B10 – Adjustments Budget Basic service delivery measurement

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

PART 2 - SUPPORTING DOCUMENTATION

Section 5 - Measurable performance objectives and indicators

Changes to measurable performance objectives and indicators are included in the supporting tables (SB3) attached. These indicators are part of the indicators contained in the Service Delivery and Budget Implementation Plan, which again forms the basis of the performance contracts of the Municipal Manager and Senior Management.

Section 6 - Budget related policies

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

Section 7 - Overview of budget assumptions

Budget Assumptions

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

Section 8 - Funding compliance

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

Funding levels are acceptable at 5.25 months cash - resources, which is remarkable in these economic times, and is sufficient to cover all requirements of the funding and reserves policy.

Section 9 - Overview of budget funding

Funding the Budget

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

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

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

A Credible Budget

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

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

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

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

Fiscal Overview of Swartland Municipality

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

<u>Long term financial planning</u>

The municipality's financial position is sound and this budget further ensures that it stays sound. Long-term borrowing is increasing, but the council also resolved to utilise accumulated cash surpluses for capital development.

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

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

Sources of funding

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

R '000	2011/12	2012/13	2013/14
Investment Interest	16 058	10 940	8 019

Unspent borrowing, that was subsequently invested, is the main contributor to the higher interest earned in the current (2011/2012) period, when compared to the other MTREF periods.

Contributions and donations

The Municipality can receive contributions from developers to provide infrastructure and other works as part of the conditions of agreeing planning permission.

Sale of assets

The Municipality is in the process of reviewing its land and asset holdings as part of its longer term financial strategy. Some asset sales are already included in the MTREF at this stage, but in terms of the Council policies the proceeds of the sales are being transferred to the Capital Replacement Reserve to assist with future capital development.

Borrowing

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

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

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

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

Based on these measures of affordability, the Municipality will utilise external sources to fund capital expenditure over the MTREF. The entire external facility, amounting to R 105 million, to be utilised over the MTREF period was secured in the current financial period (2011/2012).

R '000	2011/12	2012/13	2013/14
Long-term borrowing	105,000	0	0

Section 10 – Expenditure on allocations and grant programmes

Grant allocations

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

Section 11 – Allocations and grants made by the Municipality

Allocations Made by the Municipality

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

R '000	2011/12	2012/13	2013/14
External Entities	1 296	1 313	1 331

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

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

Section 12 – Councillor Allowances and employee benefits

Salaries, Allowances and Benefits

There are no changes proposed for Councillor Allowances.

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

Section 13 – Monthly targets for revenue, expenditure and cash flow

Monthly Cash Flows by source

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

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

Supporting table SB3 indicates the major adjustments.

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

ENTITIES

The municipality does not have any entities.

Other Service Delivery Mechanisms.

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

Section 16 – Contracts having future budgetary implications

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

Section 17 – Capital expenditure details

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

Section 18 – Municipal Manager's quality certification

Municipal manager's quality certification

An adjustments budget and supporting documentation must be covered by a quality certificate in the format as per page 75 of the Government Gazette 32141 - 17 April 2009.

QUALITY CERTIFICATE

I, J.J. Scholtz, Municipal Manager of Swartland 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: J. J. Scholtz

Municipal Manager of Swartland Municipality (WC015)

Signature:

Date: 27/1/2012