

ADJUSTMENT BUDGET 2013/14

ADJUSTED MEDIUM TERM REVENUE AND EXPENDITURE
FRAMEWORK

2/28/2014



THE BIG 5 FALSE BAY MUNICIPALITY

KZN273

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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 the provincials 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 assets on the Municipality's balance sheet.

Cash flow statements – 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 examples, 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 or revenue Act. Annual legislation that shows the total allocations made by national to provincial and local governments.

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 new standard planning documents 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 years and indicatives further two years budget allocations. Also includes details of the previous and current year's 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 were 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 expense 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. The structure is for reporting requirements and links the accounting performance both to the IDP and to the responsible officials. The vote structure at Cape Agulhas is made up as follows:

MAIN VOTE	SUB-VOTES
Executive and council	Municipal Manager Council General Expenses
Budget and Treasury Office	Property Tax Finance Stores Information Technology Funds & Reserves
Corporate services	Corporate Service Human Resource
Community and Social Service	Library Community Service Cemetery Buildings and Commonage
Planning and Development	Economic Development Planning Roads & Infrastructure

PART 1 – ANNUAL BUDGET

Section 1 – Mayor`s Report

It is with great pleasure that I present the 2013/14 Adjustment Budget to the Council for consideration.

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 reason for the tabling of an adjustment budget is fully disclosed in the executive summary of the budget documentations.

The Council`s main priority is to ensure that all members of the community have access to high quality basic service. This objective is largely supported by the municipality capital budget allocation. The capital budget places great emphasis on the upgrading of infrastructure, especially in previously disadvantaged communities.

The main adjustments proposed in this adjustment budget are:

Operating Budget

- A decrease in total revenue amounting to R4.8 million. This decrease is mainly as a result of the following-
 - (a) A decrease in transfers recognised amounting to R5 million. This decrease is as a result of the an error made by National Treasury in the initial Dora where they included an amount for integrated National Electrification Programme Grant (INEP) and they have corrected the error and the amount is removed.
 - (b) A decrease in traffic fines amounting to R1.7 million. This decrease is as a result of the delay in the start of the project.
 - (c) A decrease in Gains on Disposal of PPE amounting to R400'. This decrease is as a result of the slow pace in the process of land sale which is anticipated to be concluded before the end of the financial year.
 - (d) An increase in property rates amounting to R2.3 million. This increase is due to exclusion of annual billing in the original budget.
 - (e) An overall decrease in other revenues of R32'.
- A decrease in total expenditure amounting to R6 million. This decrease is mainly as a result of the following-
 - (a) A decrease in employee costs amounting to R534'. This decrease is as result of budgeted vacant positions, which were filled after the beginning of the financial year which resulted to saying in the employee related cost.
 - (b) A decrease in contracted services amounting to R4.7 million. This decrease is as a result of the above mentioned revenue for INEP which did not flow to the municipality.
 - (c) A decrease in repairs and maintenance and other expenditure amounting to R789'.

Capital Budget

There were no changes in the capital as expenditure.

Funding Cash Flows

The budget for 2013/14 is not fully cash funded, but the municipality will need to strengthen the debts collection in order to cover trade creditors. The below table summarises the cash flow projection of the municipality

Source	(R'000)
Rates and refuse Collection	7 379
Transfers Recognised- OPEX	20 645
Transfers Recognised- Capex	10 925
Other Revenue Inflows	6 406
TOTAL CASH INFLOW	45 355
Employee Related costs	12 085
Councillors Allowances	1 658
Contracted Services	5 601
General Expenses	10 256
Capital Expenditure	9 703
Other cash outflows incl. Creditors	5 172
TOTAL CASH OUTFLOW	44 474
NET INFLOWS/ (OUTFLOWS)	881
BALANCE AS AT 1 JULY 2011	6
NET CASH AT YEAR END	887

As can be seen from the above the municipality's cash resources will increase by R887', but the amount does not cover the portion of the unspent capital conditional grant as it can be seen above that not all amount for capital grant will be paid, as a result the municipality will not be able to meet its commitments. There is no other way than to plan accordingly and embark on strategies to stabilise the cash flow position.

Unforeseen and unavoidable expenditure

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

Recommendations

It is recommended:

- 1) That the Council approves the adjustment budget; and that the Council approves the changes to the service delivery and budget implementation plan.
- 2) That the Council approves application to be made for the permanent overdraft facility of at least R2,000 million

SECTION 2- BUDGET RELATED RESOLUTIONS

ADJUSTMENT BUDGET 2012/2013

The resolution tabled at Council for consideration with approval of the adjustments budget is:

Recommendation:

- a) That the adjustment budget of the Big 5 False Bay Municipality for the financial year 2013/14 as set out in the schedules contained in Section 4 be approved:
 - (i) Table B2 Adjustment Budget Financial Performance (By Standard Classification);
 - (ii) Table B3 Adjustment Budget Financial Performance (By Municipal votes);
 - (iii) Table B4 Adjustment Budget Financial Performance (revenue by source); and
 - (iv) Table B5 Adjustment Budget Capital Expenditure (by Municipal vote and funding Source)
- b) That council notes the projected cash shortfall for 2013/2014

SECTION 3- EXECUTIVE SUMMARY

Introduction

It should be noted that the municipality totally excluded internal revenue and expenses from the adjusted budget in line with Circular 58 from National Treasury.

It is obvious that additional resources of revenue will have to be sourced to ensure that the municipality maintains the high level of service delivery to the consumers.

Effect of the adjustment budget

The overall changes made to the 2013/14 budget can be summarised as follows:

- A decrease in total revenue amounting to R4.9 million.
- A decrease in total expenditure amounting to R6.0 million.

Summary of the changes/ Adjustments

Adjusted versus original Budget

Source	Original Budget (R'000)	Adjusted Budget (R'000)	Difference (R'000)
Property Rates	6 829	9 159	2 329
Service Charges- Refuse	1 303	1 472	168
Interest on Investment	200	100	(100)
Transfers Recognised- OPEX	25 645	20 645	(5 000)
Other Revenue	8 801	6 549	(2 252)
NET EFFECT	42 778	37 925	(4 855)
Employee Related Costs	14 333	13 799	(534)
Councillors Allowances	1 646	1 658	12
Finance Charges	300	111	(189)
Other Expenditure	27 587	22 257	(5 330)
NET EFFECT	43 866	37 825	(6 041)

BUDGET SUMMARY

A summary of the revised budget is as follows

KZN273 The Big 5 False Bay - Table B1 Adjustments Budget Summary -

Description	Budget Year 2013/14									Budget Year	Budget Year
	Original	Prior	Accum.	Multi-year	Unfore.	Nat. or	Other	Total	Adjusted	+1 2014/15	+2 2015/16
	Budget	Adjusted	Funds	capital	Unavoid.	Prov. Govt	Adjusts.	Adjusts.	Budget	Adjusted	Adjusted
	1	2	3	4	5	6	7	8	Budget	Budget	Budget
R thousands	A	A1	B	C	D	E	F	G	H		
Financial Performance											
Property rates	6 829	-	-	-	-	-	2 329	2 329	9 159	9 608	10 079
Service charges	1 303	-	-	-	-	-	168	168	1 472	1 546	1 623
Investment revenue	200	-	-	-	-	-	(100)	(100)	100	106	112
Transfers recognised - operational	25 645	-	-	-	-	(5 000)	-	(5 000)	20 645	26 219	33 827
Other own revenue	8 800	-	-	-	-	-	(2 250)	(2 250)	6 550	2 889	3 034
Total Revenue (excluding capital transfers and contributions)	42 778	-	-	-	-	(5 000)	148	(4 852)	37 925	40 367	48 675
Employee costs	14 333	-	-	-	-	-	(534)	(534)	13 799	15 193	16 105
Remuneration of councillors	1 646	-	-	-	-	-	12	12	1 658	1 757	1 863
Depreciation & asset impairment	3 000	-	-	-	-	-	-	-	3 000	3 180	3 371
Finance charges	300	-	-	-	-	-	(189)	(189)	111	117	122
Materials and bulk purchases	1 350	-	-	-	-	-	(300)	(300)	1 050	1 542	2 695
Transfers and grants	-	-	-	-	-	-	-	-	-	-	-
Other expenditure	23 237	-	-	-	-	-	(5 030)	(5 030)	18 207	18 455	21 448
Total Expenditure	43 866	-	-	-	-	-	(6 041)	(6 041)	37 825	40 244	45 604
Surplus/(Deficit)	(1 088)	-	-	-	-	(5 000)	6 189	1 189	100	123	3 071
Transfers recognised - capital	10 925	-	-	-	-	-	-	-	10 925	11 161	11 649
Contributions recognised - capital & contributed a	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	9 837	-	-	-	-	(5 000)	6 189	1 189	11 025	11 284	14 720
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-	-
Surplus/ (Deficit) for the year	9 837	-	-	-	-	(5 000)	6 189	1 189	11 025	11 284	14 720
Capital expenditure & funds sources											
Capital expenditure	10 995	-	-	-	-	-	-	-	10 995	11 161	11 649
Transfers recognised - capital	10 925	-	-	-	-	-	-	-	10 925	11 161	11 649
Public contributions & donations	-	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-	-
Internally generated funds	70	-	-	-	-	-	-	-	70	-	-
Total sources of capital funds	10 995	-	-	-	-	-	-	-	10 995	11 161	11 649
Financial position											
Total current assets	9 370	-	-	-	-	-	581	581	9 951	5 323	2 395
Total non current assets	102 922	-	-	-	-	-	6 026	6 026	108 948	106 656	112 136
Total current liabilities	7 115	-	-	-	-	-	4 602	4 602	11 717	7 542	7 994
Total non current liabilities	2 283	-	-	-	-	-	2 504	2 504	4 788	2 420	2 565
Community wealth/Equity	102 895	-	-	-	-	-	(500)	(500)	102 395	102 017	89 552
Cash flows											
Net cash from (used) operating	8 418	-	-	-	-	(5 000)	7 695	2 695	11 113	11 360	11 860
Net cash from (used) investing	(6 795)	-	-	-	-	-	(2 908)	(2 908)	(9 703)	(11 161)	(11 649)
Net cash from (used) financing	-	-	-	-	-	-	(530)	(530)	(530)	-	-
Cash/cash equivalents at the year end	2 305	-	-	-	-	(5 000)	4 263	(737)	1 568	2 504	1 726
Cash backing/surplus reconciliation											
Cash and investments available	2 416	-	-	-	-	-	(643)	(643)	1 773	938	994
Application of cash and investments	(77)	-	-	-	-	-	3 034	3 034	2 957	552	3 935
Balance - surplus (shortfall)	2 493	-	-	-	-	-	(3 677)	(3 677)	(1 184)	387	(2 940)
Asset Management											
Asset register summary (WDV)	102 922	-	-	-	-	-	6 026	6 026	108 948	106 656	112 136
Depreciation & asset impairment	3 000	-	-	-	-	-	-	-	3 000	3 180	3 371
Renewal of Existing Assets	-	-	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	1 350	-	-	-	-	-	-	-	1 350	2 542	2 695
Free services											
Cost of Free Basic Services provided	148	-	-	-	-	-	-	-	148	157	173
Revenue cost of free services provided	860	-	-	-	-	-	-	-	860	912	967
Households below minimum service level											
Water:	-	-	-	-	-	-	-	-	-	-	-
Sanitation/sewage:	-	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-	-
Refuse:	0	-	-	-	-	-	-	-	0	0	0

SECTION 4- ADJUSTMENT BUDGET TABLES

The adjustment budget tables are attached to the document as tables B1 to B10. Tables supporting the above (SB1 to SB20) are also attached and listed separately.

The Budget tables are:

Table B1	Adjustment Budget Summary
Table B2	Adjustment Budget 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

PART 2- SUPPORTING DOCUMENTATION

Section 5- Measurable Performance Objectives and Indicators

Changes to measurable performance objectives and indicators are not included as a supporting table (SB3) resulted from the need to review SDBIP

Section 6- Budget Related Policies

There were changes in some of the budget related policies i.e. SCM policy, indigent policy, telephone usage and Subsistence and travel policy.

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 however very low, which is indicative of recent times. In the absence of new external strategies to finance the operational program of the municipality, the municipality’s budget will not be cash funded in the 2012/2013 financial year.

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.

9.1 Funding of operating and capital expenditure

The municipal budget is cash funded, however the decrease in cash available at year requires the municipality to put more effort in collecting more revenues.

9.2 Financial plans

At this stage The Big 5 False Bay Municipality has not yet adopted a long-term financial plan that is fully funded. It is therefore difficult to provide inputs on how the adjustment budget will influence the financial plan.

9.3 Reserves

None of the reserves will be cash backed at 30 June 2014.

9.4 Financial sustainability of the municipality

The municipality's financial position is still not sound as the current liabilities are almost equal to the current assets, meaning the municipality might have going concern issues.

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

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.

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

No allocations are made by the municipality.

Section 12 – Councillor Allowances and employee benefits

Salaries, Allowances and Benefits

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 no 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 to SB 19.

Section 18 – Municipal Manager’s quality certification

QUALITY CERTIFICATE

I, Abion Mfanomncane Dhlomo, Municipal Manager of The Big 5 False Bay 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.

Municipal Manager of The Big 5 False Bay Municipality (KZN273)

Signature

Date