

# Central Karoo District Municipality



## Adjustment Budget 2013/14- 2015/16 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. The structure is for reporting requirements and links the accounting performance both to the IDP and to the responsible officials. The vote structure at Central Karoo District Municipality is made up as follows:

<b>Vote 1</b>	<b>EXECUTIVE AND COUNCIL</b>
1.1	MUNICIPAL MANAGER
1.2	COUNCIL GENERAL EXPENSES
1.3	INTERNAL AUDIT
1.4	PIMMS
1.5	EDA
1.6	LED
1.7	[Name of sub-vote]
1.8	[Name of sub-vote]
1.9	[Name of sub-vote]
1.10	[Name of sub-vote]
<b>Vote 2</b>	<b>BUDGET AND TREASURY</b>
2.1	FINANCIAL SERVICES
2.2	DISTRICT COUNCIL LEVIES
2.3	FINANCE MANAGEMENT GRANT
2.4	
2.5	
2.6	
2.7	
2.8	
2.9	
2.10	
<b>Vote 3</b>	<b>CORPORATE SERVICES</b>
3.1	CORPORATE SERVICES
3.2	TOURISM
3.3	PMU
3.4	ENVIRONMENTAL HEALTH
3.5	CIVIL DEFENCE
3.6	GRANTS AND SUBSIDIES
3.7	WORK FOR WATER
3.8	NUTRITION SCHEME
3.9	GLOBAL FUND
3.10	PRIMARY HEALTH CARE
<b>Vote 4</b>	<b>TECHNICAL SERVICES</b>
4.1	ROADS
4.2	TRANSPORT FUND

# PART 1 - ANNUAL BUDGET

## Section 1 -Mayor's Report

It is with great pleasure that I present the 2013/2014 Adjustment Budget to the Council for consideration.

The reason for the tabling of an adjustment budget is fully disclosed in the executive summary of the draft budget documentation. The adjustments were mainly necessitated by increased grant funding as well as adjustments required due to over expenditure on votes.

Council is still committed to ensure high quality basic services are provided. The main adjustments proposed in this adjustment budget are:

### Operating Budget

- 1) An increase in total revenue amounting to R 4.557 million. This increase is mainly as a result of the following -
  - a. An increase in operational grant revenue as a result of the following allocations:
    - i. Department of Public Roads - R3,129 million
    - ii. Provincial Contribution for the Financial Support Grant- R0.300 million
    - iii. Unspent Provincial Contribution for the Financial Support Grant - R0.570 million
- 2) An increase in operating expenditure amounting to R6,242 million. This increase is mainly as a result of the following -
  - a. An increase in employee related costs amounting to R0.364 million. This increase could mainly be attributed to the municipality's increase in post-employment benefits.
  - b. An increase in other expenditure on the roads subsidy of R 3,219 million. This increase in allocation was made during the revised budget process of the provincial government.

The net effect from these adjustments is that the projected operating surplus for the year, previously stated at R 2.692 million, decrease to R1.007 million.

### Capital Budget

Capital budget is un-changed during this revised budget process.

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

TYPE	2013/14	2014/15	2015/16
Operating	56 889	52 367	55 365
Capital	330	0	0
<b>TOTAL</b>	<b>57 219</b>	<b>52 367</b>	<b>55 365</b>

### Funding and Cash flows

The budget for 2013/2014 is cash funded

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

Source	2013/2014	2014/2015	2015/2016
CASHF FLOW FROM/(USED) OPERATING ACTIVITIES	635	4796	7489
NET CASHF FROM/(USED) INVESTING ACTIVITIES	(330)	(437)	(463)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(52)	(50)	(2)
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>252</b>	<b>4309</b>	<b>7023</b>
CASH/CASH EQUIVALENTS AT THE YEAR BEGIN:	1887	2 139	6 448
<b>CASH/CASH EQUIVALANETS YEAR END</b>	<b>2139</b>	<b>6 448</b>	<b>13 471</b>

As can be seen from the above the municipality's cash resources will increase over the MTREF period and if strict budget control measures are put in place, the cash flow position will improve during the outer years.

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 I.D.P. process, 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 expected grant expenditure are reflected below. Full details regarding income and allocations are disclosed in documentation forms SB7 to SB9.

### **Recommendations**

It is recommended:

- 1) that the Council approves the adjustments budget; and  
That the Council approves the changes to the service delivery and budget implementation plan.



## 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 adjustments budget of Central Karoo District Municipality Municipality for the financial year 2012/2013 as set out in the schedules contained in section 4 be approved:
  - (i) Table B1 Adjustments Budget Summary;
  - (ii) Table B2 Adjustments Budget Financial Performance (by standard classification);
  - (iii) Table B3 Adjustments Budget Financial Performance (by municipal vote);
  - (iv) Table B4 Adjustments Budget Financial Performance (revenue by source); and
  - (v) Table B5 Adjustments Budget Capital Expenditure (by municipal vote and funding source)
- 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 financial position of Central Karoo District Municipality Municipality is still sound at this stage. It is however advised that new funding sources be exploited (i.e. more own revenue or additional grant funding). The current financing structure places enormous strain on the existing grants allocation of the municipality. This will result in a major downturn in capital expenditure in future periods that could result in a slowdown of economic growth in the municipal area.

Management should always strive to maintain, and where possible increase accumulated reserves. This is however only possible if capital projects from own resources are reduced or more funding sources are acquired to ensure a sustainable long term capital expansion plan.

### Effect of the adjustment budget

The overall changes to the operating budget 2013/2014 budget can be best illustrated in the chart below.

#### OPERATING BUDGET (R' 000)

Type	Original Budget 2013/14	Adjustment	Adjusted Budget 2013/14
Revenue	53 340	4 557	57 896
Expenditure	(50 648)	(6 242)	(56 889)
<b>Surplus/(Deficit)</b>	<b>2 692</b>	<b>(1 685)</b>	<b>1 007</b>

The operational budget revenue recognised has been adjusted from R 53,340 million to R 57,896 million for the 2013/2014 budget year, whilst the operational expenditure has been adjusted upwards from R50, 648million to R 55, 889 million.

The new projected forecasts for the MTREF are as follows:

**OPERATING BUDGET (R' 000)**

Type	2013/14	2014/15	2015/16
Revenue	57 896	56 061	61 400
Expenditure	(56 889)	(52 367)	(55 365)
<b>Surplus/(Deficit)</b>	<b>1 007</b>	<b>3 694</b>	<b>6 036</b>
Less: Capital Grants	0	0	0
<b>Surplus/(Deficit) excluding capital grants</b>	<b>1 007</b>	<b>3 694</b>	<b>6 036</b>

**CAPITAL BUDGET (R' 000)**

Objective	2013/14	2014/15	2015/16
Governance and Admin	330		
Community and Safety Services			
Economic Services			
Trading Services			
Other			
<b>Total</b>	<b>330</b>		

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

Funding Source	2013/14	2014/15	2015/16
National Government	0	0	0
Own Funds	330	0	0
<b>Total</b>	<b>330</b>	<b>0</b>	<b>0</b>

## **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. The municipality is currently in the start-up phase a new entity relating to LED.

## **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, like the original budget is not cash - funded which is the first indicator of a “credible” budget. This shortfall increased to from R1 .7million to R2.6 million, mainly due to the operating expenditure increases.

	<b>2013/14</b>	<b>2014/2015</b>	<b>2015/2016</b>
Cash and investments available	2 139	6 448	13 471
Application of cash and investments	5023	4 613	4 570
<b>Surplus/(Shortfall)</b>	<b>(2 884)</b>	<b>1 835</b>	<b>8 902</b>

It should be noted that although the 2013/14 adjustment budget is not funded, an improvement is seen in the 2014/15 and 2015/16 year due to conservative expenditure budgeting. This improvement will only be upheld if strict

measures are in place to minimize expenditure and increase the income of the municipality.

## **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 Financial sustainability of the municipality**

The municipality's financial position is still sound but the 2010/2011 financial year was the start of reducing surpluses. The municipality might have no alternative in the near future other than to rationalise its existing staff component considering the fact that additional income sources seems nowhere to be found. The municipality plans to continue exercising strict financial management and ensuring a cash flow which meets the requirements.

Due to the fact that the majority 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 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 SB12 to SB17 show the adjusted monthly cash flows.

## **Section 14 -Adjustments to thequarterly 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 do have the CKEDA as an entity.

### **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 SB18 to SB19.

## Section 18 -Municipal Manager's quality certification

I, \_\_\_\_\_, Municipal Manager of Central Karoo District Municipality 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 Central Karoo District Municipality Municipality (DC5)

Signature .....

Date .....