**CENTRAL KAROO DISTRICT MUNICIPALITY**



**ADJUSTMENT BUDGET MTREF 2016/2017 – 2018/2019**

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**SECTION A – Part 1**

**1. Glossary**

**Adjustments Budgets –** Prescribed in section 28 of the Municipal Finance Management Act. It is the formal means by which a municipality may revise its budget during a financial year.

**Allocations –** Money received from Provincial and National Treasury.

**Budget –** The financial plan of a municipality.

**Budget related policy –** Policy of a municipality affecting or affected by the budget.

**Capital Expenditure –** Spending on municipal assets such as land, buildings and vehicles. Any capital expenditure must be reflected as an asset on a municipality’s balance sheet.

**Cash Flow Statement –** A statement showing when actual cash will be received and spent by the Municipality, and the month end balances of cash and short term investments. Cash receipts and payments do not always coincide with budgeted revenue and expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month that the services or goods are received, even though it may not be paid in the same period.

**CKDM –** Central Karoo District Municipality

**DORA –** Division of Revenue Act. The annual piece of legislation that indicate the allocations from National Government to Local Government.

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

**GDFI -** Gross Domestic Fixed Investment

**GFS –** Government Finance Statistics. An internationally recognised classification system that facilitates comparisons between municipalities.

**IDP –** Integrated Development Plan. The main strategic planning document of a municipality.

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

**MFMA -** 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 as prescribed by the MFMA sets out indicative revenue and projected expenditure for the budget year plus two outer financial years to determine the affordability level.

**Operating Expenditure –** Spending on the day to day expenses of a municipality such as general expenses, salaries & wages and repairs & maintenance.

**Rates –** Local Government tax based on assessed valuation of a property.

**TMA –** Total Municipal Account

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

**Strategic Objectives –** The main priorities of a municipality as set out in the IDP Budgeted spending must contribute towards achievement of these strategic objectives.

**Vote –** One of the main segments into which a budget is divided, usually at department level.

**2. Mayors Report**

As highlighted in the December 2016 mid-year assessment report, is it important that the additional grants as gazetted, as well as the de-registration of the Central Karoo Economic Development Agency (CKEDA) be incorporated in the 2016/17 Adjustment Budget to ensure compliance with the MFMA, to accelerate service delivery and to correct mistakes in the budget.

**3. Resolutions**

That Council approves the following:

(a) That the consolidated Operating budget of R 77 342 993 and Capital budget of R 1 530 000 budget, as set out in the Municipal Budget be adopted by Council and that it constitutes the Adjustment Budget of the Council for 2016/2017 financial year, be approved.

(b That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act are included in or accompany the budget document and be approved.

**4. Executive Summary**

The Municipality’s 2016/2017 budget amounts to R 78 872 993, represented by a Capital Budget of R 1530 000 and an Operating Budget of R 77 342 993.

***Revenue***

Revenue streams are limited to the Equitable Share allocations from National Government as well as grants from Provincial Government for support initiatives.

***Expenditure***

In order for CKDM to operate financially sustainable over the medium to long term expenditure should be limited to the CPI projections published by STASSA and NT to ensure that CKDM stays within the limited funding as provided by National and Provincial Government, which grows within the CPI projections. (Although actual expenditure increases with more than the CPI projections)

***Capital***

The financing of capital expenditure from own funds (CRR) totals R 190 000, which is 13% of the total capital budget. This amount is earmarked to address disaster management issues and office equipment needed for newly appointed officials and councillors.

Capital investment funding excluding Own Funding represents a significant portion (87%) of the Municipality’s Capital Budget in 2016/2017 and consist mainly of the Municipal Support Grant from Province.

Central Karoo District Municipality has prepared a multi-year budget in accordance with the Municipal Budgeting and Reporting Regulations.

**SECTION A – Part 2**

**1. Budget Process Overview**

**1.1 Political oversight of the budget process**

Section 53 (1) of the MFMA stipulates that the mayor of a municipality must provide general political guidance over the budget process and the priorities that guides the preparation of the budget. Section 21(1) of the MFMA states that the Mayor of a municipality must co-ordinate the processes for preparing the annual budget and for reviewing the municipality’s integrated development plan and budget related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible.

Furthermore, this section also states that the Mayor must at least 10 months before the start of the budget year, table in municipal council, a time schedule outlining key deadlines for the preparation, tabling and approval of the annual budget.

This time schedule provides for political input from formal organisations such as portfolio committees.

**1.2. Schedule of Key Deadlines relating to budget process [MFMA s21 (1) (b)]**

The IDP and Budget time schedule of the 2016/2017 budget cycle was approved by Council in September 2015, ten months before the start of the budget year in compliance with legislative directives.

**1.3. Process used to integrate the review of the IDP and preparation of the Budget**

Updating the IDP and Budget is an evolving and re-iterative process over a ten months period. The initial parallel process commenced with the consultative process of the IDP in 2015 and the update of the MTREF to determine the affordability and sustainability framework at the same time. A review of the approved 2015/2016 IDP was undertaken in 2015.

**1.4. Process for consultation with each group of stakeholders and outcomes**

Following the tabling of the draft budget in March 2016, local input will be solicited via notices published in all major newspapers. The budget will also be placed on the municipal website at [www.skdm.co.za](http://www.skdm.co.za).

Comments on the IDP and Budget will be made by the public via verbal presentations, facsimiles, emails and in the form of correspondence to the municipality and will be considered for incorporation as part of the final budget approval process.

**1.5. Stakeholders involved in consultations**

The tabled budget will be provided to National Treasury and Provincial Treasury in April 2017 for their consideration in line with S23 of the MFMA.

**1.6. Process and media used to provide information on the Budget to the community**

The Municipality’s consultation process on its draft IDP review and budget will be held during April 2017, where various community organisations and representatives may/will come forward to give input and to reprioritise some of their needs.

**1.7. Methods employed to make the Budget document available (including websites)**

In compliance with the Municipal Finance Management Act and the Municipal Systems Act with regards to the advertising of Budget Documents, advertisements will be placed in the local newspaper and the municipal website.

In compliance with S 22 of the MFMA, the Budget documentation will be published on the municipality’s website following the tabling thereof at Council in March 2017 and the approval thereof in May 2017.

**2. IDP Overview and Amendments**

 **The Vision of the Municipality**

The Municipality’s long term vision:

*“Working Together In Development and Growth”*

 **Alignment with Provincial and National Government**

Central Karoo District Municipality’s development plan needs to be aligned with National and Provincial initiatives to ensure optimal impact from the combined efforts of government. In this regard there are six focus areas:

* Basic service delivery
* Institutional development and transformation
* Local economic development
* Financial viability
* Good governance and public participation
* Environment

All these feed into and influence the Integrated Development Plan.

 **Central Karoo District Municipality Budget Priorities (Key Performance areas)**

The Municipality’s 2016/2017 to 2018/2019 Integrated Development Plan focuses on six strategic focus areas. The concrete objectives for each strategic focus area have been outlined and elaborated on in the Strategic Plan for 2016-2020. These objectives will be used to further develop key performance indicators against which performance implementation monitoring and reporting will be done. The corporate scorecard outlines these indicators and targets.

The six strategic outcomes are:

* To build a well capacitated workforce and skilled employable youth and communities
* To deliver sound administrative and financial services, to ensure viability
* To facilitate good governance principles and effective stakeholder participation.
* To improve and maintain district roads and promote effective and safe public transport for all.
* To plan to minimize the impact of social ills, disasters and improve public safety in the region
* To promote safe, healthy and socially stable communities in an environment conducive to integrated and sustainable development
* To pursue economic growth opportunities that will create descent work

**3. Overview of Budget Related Policies and Amendments**

The following budget related policies have been approved by Council, or have been reviewed / amended and / or are currently being reviewed / amended, in line with National Guidelines and Legislation.

* Asset Management Policy
* Credit Control and Debt Collection Policy
* Cash Management and Investment Policy
* Supply Chain Management Policy
* Veriment Policy
* Funding and Reserves Policy

Policies which have been amended according to the recommendation below will be available on the website of the municipality.

**4. Overview of Budget Assumptions**

**Expenditure**

Salaries and Allowances

Wage negotiations are finalised between the Unions and the South African Local Government Association and the municipality has budgeted as per agreed.

The Minister of Finance approved increases for municipal councillors during the 2016/2017 financial year, and the increase will be implemented as from 1 July 2016.

It is also assumed that the current employees will not resign and therefore notch increases for all employees are budgeted for.

General expenditure

It is assumed that costs for services and fuel will increase above the current inflation rate. It is also assumed that the capital projects for 2016/2017 will be completed during the financial year as depreciation are budgeted on these projects as per General Recognized Accounting Practice (GRAP) principles. Depreciation on new capital expenditure are calculated at a varying rate ranging between 9 and 20 years depending on the nature of the assets.

Repairs and Maintenance

It is assumed that municipal infrastructure and assets will be maintained as per previous years and that no major breakages will take place during the financial year.

**Revenue**

Grants

It is assumed that the National and Provincial grants as per the Division of Revenue Bill (DORA Bill) which has been included in the budget will be received during the 2016/2017 financial year.

**5. Overview of Budget Funding**

Summary

***Revenue***

The budget will be mainly funded via grants from National (Equitable Share) and Provincial Government (Support Grants) as well as agency fees for the Road Services.

***Capital***

The financing of capital expenditure from own funds (CRR) totals R 222 000, which is 14% of the total capital budget. This amount is earmarked to address disaster management issues and office equipment needed for newly appointed officials and councillors.

Capital investment funding excluding Own Funding represents a significant portion (86%) of the Municipality’s Capital Budget in 2016/2017 and consist mainly of the Municipal Support Grant from Province.

*Reserves*

The accumulated surplus will be used to finance the depreciation on assets as the impact of the full provision for depreciation is not affordable.

*Sustainability of municipality*

The funding of the budget will ensure that the municipality will be sustainable on the short term.

Investments

Surplus funds are invested on call accounts to ensure that the municipality have available cash for operational purposes.

Contributions and donations received

None

Planned proceeds of sale of assets

None

Planned use of previous year’s cash backed accumulated surplus

It is planned to use the previous year’s cash backed surpluses to increase the Capital Replacement Reserves, for the financing future capital projects.

Particulars of existing and any new borrowing proposed to be raised

None

**FUNDING ASSESSMENT FOR 2016/2017**

The following table lists the factors that have been reviewed. Each of the factors is then further described below.

**No. Funding Compliance**

1 Cash/cash equivalent position

2 Cash plus investments less applications

3 Monthly average payments covered by cash or cash equivalents

4 Surplus/deficit excluding depreciation offsets

5 Property Rates/service charge revenue % increase less macro inflation target

6 Cash receipts % of ratepayer and other revenue

7 Debt impairment expense % of billable revenue

8 Capital payments % of capital expenditure

9 Borrowing as a % of capital expenditure (less transfers/grants/contributions)

10 Transfers/grants revenue as a % of Government transfers/grants available

11 Consumer debtors’ change (Current and Non-current)

12 Repairs & maintenance expenditure level

13 Asset renewal/rehabilitation expenditure level

**Funding compliance factor description**

Each of these ‘funding factors’ have been analysed and reviewed in their entirety prior to undertaking any analysis. Where the factor appears unfavourable and cannot be adequately motivated, the budget has been adjusted appropriately.

**(a) Cash/cash equivalent position**

The municipality foresees a positive cash position for the medium term, as working capital are cash-backed. History has indicated that although the municipality does not budget for surpluses, there were surpluses recorded for the last few years. The cash flow is currently positive.

**(b) Cash plus investments less application of funds**

The purpose of this measure is to understand how the municipality has applied the available cash and investments identified at factor 1.

**(c) Monthly average payments covered by cash or cash equivalents**

The purpose of this measure is to understand the level of financial risk (ability to meet monthly payments as and when they fall due) should the municipality be under stress.

The municipality does receive enough cash three times a year from National Government to cover its monthly average payments. A financial risk arises if unforeseen circumstances occur, which negatively impacts the cash situation of the municipality.

**(d) Surplus/deficit excluding depreciation offsets**

The main purpose of this measure is to understand whether revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An ‘adjusted’ surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets.

This exercise indicates that there will be a surplus if the depreciation has been offset.

**(e) Property Rates/service charge revenue % increase less macro inflation target**

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in ‘revenue’, which will include both the change in the rate or tariff as well as any assumption about real growth. Not applicable to Central Karoo DM.

**(f) Cash receipts % of ratepayer and other revenue**

This factor is a macro measure of the rate at which funds are ‘collected’. This measure is intended to analyse an underlying assumed collection rate; i.e. how much cash is expected to be collected from current billing, charges and arrear debtors.

The assumed collection rate is based on collections of service charges of the current year (2016/2017) and is regarded as realistic.

Not applicable to Central Karoo DM.

**(g) Debt impairment expense % of billable revenue**

The purpose is to measure whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection.

Debt impairment has been based on service charges not collected during the current year (2015/2016) and is regarded as realistic.

**(h) Capital payments % of capital expenditure**

The purpose of this measure is to mainly understand whether the timing of payments is being taken into consideration when forecasting the cash position. The measure focuses on the capital budget.

expenditure levels for this component of the budget can vary significantly from month to month, as there tends to be monthly consistency for operational budgets.

**(i) Borrowing as a % of capital expenditure (excluding transfers, grants and contributions)**

The purpose of this measurement is to determine the proportion of a municipality’s ‘own-funded’ capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) should be excluded. The municipality do not have any external loans.

**(j) Transfers/grants revenue as a % of Government transfers/grants available**

The purpose of this measurement is mainly to ensure that all available transfers from other government (national, provincial or district municipalities) have been included in the municipal budget, or that the transfer/grant budgets do not exceed available funds. A percentage less than 100 per cent could indicate that all Division of Revenue Bill (DORA Bill), provincial transfers or district transfers have not been budgeted and should be immediately reviewed.

The transfers/grants as per Division of Revenue Bill (DORA Bill) (100%) have been included in the revenue budget.

**(k) Consumer debtors change (Current and Non-current):**

The purposes of these measures are to ascertain whether budgeted reductions in outstanding debtors are realistic.

The amounts of outstanding debtors are regarded as realistic.

**(l) Repairs & maintenance (R&M) expenditure level**

This measure is included within the funding measures criteria because a trend which indicates that insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected.

The budgeted for Repairs and Maintenance amounts to R 18, 574 M. The replacement of equipment was also appropriately budgeted for within the capital budget.

**(m) Asset renewal/rehabilitation expenditure level**

This measure has a similar objective to the R&M measures, but focus on the credibility of the levels of asset renewal plans.

**(n) Financial Performance Budget result (surplus/deficit)**

The purpose of this measure is to assess the overall budget. The municipality forecast’s a positive cash position for the medium term as all reserves and working capital are cash-backed. The cash situation seems to be deteriorating, as the funding of the capital projects from own funds has been taken into consideration. History has indicated that although the municipality does not budget for surpluses (maybe to conservative), there were in fact surpluses recorded for the last few years.

The municipality does recover enough cash to cover its monthly average payments. A financial risk arises if unforeseen circumstances occur.

**(o) Financial Position Budget**

The purpose of this measure is to also assess the overall budget.

**(p) Cash Flow Budget**

The purpose of this measure is to also assess the overall budget. The municipality does recover enough cash to cover its monthly average payments. A financial risk arises if unforeseen circumstances occur.

**(q) Summary**

The municipality currently do have enough funds and generate enough cash to meets its operational requirements. The financial position of the municipality is monitored on a daily basis by the relevant finance officials and reports are submitted to the Finance Portfolio Committee and if needed correction steps are taken.

**6. Expenditure on allocations and grant Programmes**

Particulars of budgeted allocations and grants for 2016/17:

*Operating Budget / Capital Budget*

The above allocations and grants have been included in the operating and capital budgets.

Local Government Financial Management Grant R 1 250 000

Equitable Share R 19 416 000

Expanded Public Works Programme Integrated Grant R 1 000 000

WC Financial Management Support Grant R 3 480 000

Rural Roads Asset Management Grant R 1 866 000

WC Capacity Building Grant R 120 000

Chieta R 133 000

**7. Allocations or grants made by the Municipality**

None

**8. Councillor allowances and employee benefits**

Allowances and employee benefits:

*Councillors*

 Salary

 Allowances for Cell phones

 Allowances for Transport

 Contributions

*Senior Managers of the Municipality*

 Salary

 Allowances for transport

 Contributions

 Performance Bonuses

*Other Employees*

 Salary

 Housing Subsidy

 Long service bonuses

 Allowances for Transport

 13th Cheque

 Contributions to medical and pension fund

**9. Monthly targets for revenue, expenditure and cash flow**

The monthly targets for revenue, expenditure and cash flows will be provided in SA 25.

**10. Capital spending detail**

Information/detail regarding capital projects is provided in the simplified budget.

**11. Legislation compliance status**

Central Karoo District Municipality complies in general with legislation applicable to municipalities.

**12. Other supporting documents**

None