

REPORT : CHIEF FINANCIAL OFFICER**1. PURPOSE OF REPORT**

The purpose of the report is to submit for approval adjustments for the approved 2015/16 Budget proposed in terms of the Municipal Finance Management Act and Budget and Reporting Regulations thereof.

2. BACKGROUND

During the implementation of the budget the Accounting Officer of a municipality may in terms of section 69 (2) prepare when necessary an adjustments budget and submit it to the Mayor for consideration and tabling in the Municipal Council. Furthermore, the act provides that as part of the mid-year budget and performance assessment conducted in terms of section 72, the accounting officer must make recommendations as to whether an adjustment budget has to be passed or not.

Section 28 (2) of the act provide guidelines regarding the preparation of Adjustment Budget as follows:

- (1) A municipality may revise an approved budget through an adjustment budget.
- (2) An adjustment budget –
 - (a) must adjust the revenue and expenditure estimate downwards if there is material under-collection of revenue during the current year;
 - (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - (c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality
 - (d) may authorise the utilization of projected savings in one vote towards spending under another vote;
 - (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current financial year was approved by the council;
 - (f) may correct any errors in the annual budget; and
 - (g) may provide for any other expenditure within a prescribed framework

The recommended adjustment based on the budget mid-year budget and performance assessment recommendations, except for adjustments based on sub-sections 28(2)(c), (e) and (g) or unless the additional revenue is as a result of additional transfers allocated to the municipality by provincial or national government, should in accordance with section 23 of the Municipal Budget and Reporting Regulations be tabled in the council not later than 28 February of the current year.

3. DISCUSSION

It is important to note that the proposed adjustment budget made in this report is as a result of the recommendations made by the Accounting Officer as part of the mid-year budget and performance assessment report tabled in January 2016. The adjustment budget is also based on a balanced approach of ensuring that expenditure does not exceed the available resources and therefore possible savings from different votes have to be identified and resources thereof re-allocated to some priority areas expected to have shortfall. The basis of the approach to this 2015/16 adjustment budget can be clearly outlined using the following methodology and assumptions:

- (a) A mid-term budget report as at 31 January 2016 indicating the original budget with the virements made until that date, as well as the actual amount spent during the first 7 months of the financial year was drawn from the financial system. Based on the actual revenue collected and amount spent until that date the total revenue expected to be collected and amount that would be spent for the full financial year was then projected. The expenditure for the full year was projected by adding the actual amount to date plus 5 months of the budgeted amount.
- (b) The projected amounts for expenditure to be incurred within budget expenditure category under some votes were found to be in excess of the approved budget whilst in some votes were below the approved budget. In instances where the projected expenditure in a vote or votes was in excess of the approved budget additional amount was allocated to that vote or votes whilst in instances where projected expenditure in a vote or votes was below the approved budget the expected amount of savings was re-allocated to a vote or votes with expected shortfall.
- (c) Under revenue there was additional income anticipated to be received and collected based on different factors that came to play during the first half of the financial year.

Based on the above approach and principles the following adjustments to the budget are recommended:

- (a) **Other (general) expenses** – the budget amounting to R65 800 142 has to be adjusted downwards to R58 865 017 after total savings amount to R6 935 125

is expected to be realized from different expenditure items and votes under this category. This expected savings would thus be reallocated as explained below to other expenditure categories where shortfall is expected.

- (b) **Employee Costs** - the approved budget is R158 622 653 and it is projected that R161 122 653 would be required for the full financial year as a result of the need to fund the increase in the salaries of Directors, overtime costs and position that are vacant as a result of attritions across different votes. Therefore, additional amount of R2 500 000 is required to adjust the budget upward to R161 122 653 and this amount would be funded from savings to be realized under other (general) expenses across different votes.
- (c) **Contracted Services** – the budget amounting to R17 402 000 need to be adjusted upwards to R26 212 000 based on the following:
 - (i) New expenditure item has to be created which relates to the current drought situation of which Setsoto Local Municipality has been proclaimed as one of the drought disaster areas. An amount of R6 000 000 was provided for which would be funded from savings to be realized across different votes amounting to R1 564 000 under other contracted services and R4 436 000 under other (general) expenses. There is a possibility grant funding would be received from National Government, however such an amount has not yet been confirmed.
 - (ii) The other new expenditure item which relates to water and sewer pipelines maintenance was created of which an amount of R5 000 0000 was provided for. This amount is fully funded from the additional grants of R5 000 000 already received from Provincial Treasury.
- (d) **Finance charges** – the budget amounting to R3 227 000 has to be adjusted downwards (decreased) to R1 779 000 after a saving amounting to R1 448 000 is envisaged as a result of the loan applied for at DBSA not yet realized and the budget amount allocated towards the repayment thereof would be incurred in full or at all during the current financial.
- (e) **Depreciation & asset impairment** - the budget amounting to R25 282 000 has to be increased to R253 708 000 with an amount of R228 426 000 of which R5 426 000 would be funded from revenue and R223 000 000 would be funded from the accumulated surplus which currently have R3,5 billion balance that was built-up from the revaluation of infrastructure assets. Depreciation is a non-cash based item and the increase has to be done to accommodate the expense for the year of the deteriorating assets value. Note should be taken that depreciation is treated in terms of Circular 58 that was issued by National Treasury.

- (f) **Debt Impairment** - provision for Bad Debt budget amounting to R44 000 000 has to be increased with an amount of R5 million to R49 000 000 which would be funded from revenue. The increase in provision is done in order to cater for the envisaged uncollectable revenue following the proposed increase on water service revenue and rates income.
- (g) Table B1 provides a summary of the adjustments to be made on the total revenue budget where additional income amounting to R16,7 million has to be considered. The additional revenue is made up of the following:
- (i) **Transfers and Grants** – the budget amounting to R173 679 000 that has to be increased to R178 679 000 with an amount of R5 million which was received from Provincial Treasury for the maintenance of the main sewer outfall pipe line.
 - (ii) **Service charges** - revenue budget amounting to R166 782 000 has to be increased to R174 137 000 with an amount R7 355 000 due to water service income derived from the implementation of the temporary R100.00 flat rate consumption levy introduced by council in June 2015.
 - (iii) **Rates income** – the budget amounting to R38 500 000 has to be increased to R42 044 000 with an amount of R3 544 000 based on the additional revenue expected to be collected resulting from the revenue enhancement strategy where some properties omitted in the valuation roll had to be accounted for.
 - (iv) **Investment income** – the budget amounting to R1 400 000 has to be increased to R1 800 000 with an amount of R400 000 following additional interest projected to be earned from short-term cash investment as a result of good management of the municipality's cashflow.
- (h) Cognisance should be taken that in terms of the Municipal Property Rates and Council policy relief could be given to certain categories such as farmers that are directly affected by the drought situation. The adjustment towards the relief of farmers would be done once the disaster Transfers and Grants has been confirmed by National Government.
- (i) The capital expenditure and funding budget has to be adjusted as follows:
- (i) The funding from external borrowings amounting to R30 000 000 has to be decreased to R24 784 000 with an amount of R5 216 000 as a result of the loan amount not as yet realised.

(ii) The funding from internal funds amounting to R4 468 000 has to be decreased with an amount of R3 500 000.

(iii) The expenditure budget has to be realigned to fit into the available funding by:

- Decreasing Community and Social Services vote with an amount of R1 000 000 for the cemeteries resulting from the decrease on internal funding;
- Decreasing Electricity vote with an amount of R500 000 for the equipment resulting from the decrease on internal funding;
- Decreasing Waste Water Management vote with an amount of R6 700 000 resulting from the decrease on internal funding and capital expenditure excluded from the external borrowing projects listing;
- Decreasing Waste Management vote with an amount of R200 000 resulting from the decrease on internal funding
- Increasing Roads Transport vote with an amount of R1 700 000 resulting from capital expenditure included in the external borrowing projects listing.

4. STAKEHOLDERS CONSULTED

Municipal Manager
Directors of Departments
MFIP Technical Advisor

5. LEGAL IMPLICATIONS

None

6. STAFF IMPLICATIONS

Staff capacitation

7. FINANCIAL IMPLICATIONS

None

8. RISKS

If the additional revenue for drought relief is not confirmed the actual budget performance may run into deficit.

9. ANNEXURES

B Schedule. (Contained all tables as mentioned above)

Detail list of all affected line items.

10. RECOMMENDATIONS:

1. That cognisance be taken:
 - 1.1 Of sections 28(2), 69(2) and 72 of Municipal Finance Management Act and section 23 Municipal Budget and Reporting Regulations regarding the handling of Budget Adjustments.
 - 1.2 Of the fact that the adjustment budget was made as a result of the recommendations made by the Accounting Officer as part of the mid-year budget and performance assessment report tabled in January 2016.
 - 1.3 Of the fact that potential additional revenue for drought relief could not be included in the current adjustment budget of Transfers and Grants income, however once this amount is confirmed by National Government the revenue will then be adjusted into the budget at later stage in the financial year.
 - 1.4 Of the fact that in terms of the Municipal Property Rates and Council policy relief could be given to certain categories such as farmers that are directly affected by the drought situation and that the adjustment towards the relief of farmers would be done once the disaster Transfers and Grants has been confirmed by National Government.
2. That proposed budget adjustments as narrated in the report and contained in B Schedule of the report be approved.
3. That any overspending on a vote adjusted through this adjustment budget be authorised.
4. That the directors manage the expenditure of their respective votes in order to avoid any further overspending on the votes.

(FOR RESOLUTION)

Minutes: Council Meeting -- 29/02/2016

Cllr Selasi proposed that the matter be resolved as follows and was seconded by Cllr Du Toit.

1. That cognisance be taken:
 - 1.1 Of sections 28(2), 69(2) and 72 of Municipal Finance Management Act and section 23 Municipal Budget and Reporting Regulations regarding the handling of Budget Adjustments.

- 1.2 Of the fact that the adjustment budget was made as a result of the recommendations made by the Accounting Officer as part of the mid-year budget and performance assessment report tabled in January 2016.
 - 1.3 Of the fact that potential additional revenue for drought relief could not be included in the current adjustment budget of Transfers and Grants income, however once this amount is confirmed by National Government the revenue will then be adjusted into the budget at later stage in the financial year.
 - 1.4 Of the fact that in terms of the Municipal Property Rates and Council policy relief could be given to certain categories such as farmers that are directly affected by the drought situation and that the adjustment towards the relief of farmers would be done once the disaster Transfers and Grants has been confirmed by National Government.
2. That proposed budget adjustments as narrated in the report and contained in B Schedule of the report be approved.
 3. That any overspending on a vote adjusted through this adjustment budget be authorised.
 4. That the directors manage the expenditure of their respective votes in order to avoid any further overspending on the votes.
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