

A1391 ADJUSTMENT BUDGET FOR THE 2014/2015 FINANCIAL YEAR

(5/1/3 (2014/2015))

Cluster: Finance
Portfolio: Finance

PURPOSE

To present to Council the detailed Adjustment Budget for 2014/2015 for approval.

INTRODUCTION

Section 28 of the Local Government: Municipal Finance Management Act No. 56 of 2003 (the MFMA) sets out the conditions for the tabling and adoption of an Adjustments Budget. The Section reads, in part:

“Municipal adjustments budgets

28. (1) *A municipality may revise an approved annual budget through an adjustments budget.*
- (2) *An adjustments budget -*
 - (a) *must adjust the revenue and expenditure estimates 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 utilisation 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 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.*
- (3) *An adjustments budget must be in a prescribed form.*
- (4) *Only the mayor may table an adjustments budget in the municipal Council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.*
- (5) *When an adjustments budget is tabled, it must be accompanied by-*
 - (a) *an explanation how the adjustments budget affects the annual budget;*
 - (b) *a motivation of any material changes to the annual budget;*
 - (c) *an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and*
 - (d) *any other supporting documentation that may be prescribed.*
- (6) *Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.*

- (7) *Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.”*

BACKGROUND

The Municipal Manager, in conjunction with the Executive Directors determined that an adjustment budget is required to address the short comings within the existing budget in terms of Section 72(3) of MFMA.

The budget panel conducted planning and enquiry meetings with individual clusters where the needs of each section were discussed in relation to their approved SDBIPs, with the budget principles and approach to be applied. Clusters were requested to prepare a review in relation to their mid-year report (SDBIP) which served as a motivation towards the adjustment budget. Revised figures were then presented in order to finalize the adjustment budget taking into consideration the needs of all clusters.

The criteria utilized for compiling the adjustment budget were determined by the following factors:

- The Adjustment Budget must be compiled in compliance with the MFMA requirements as set out in Section 28(1-7) as specify in the body of the report. This relates to expenditure and income estimate deviations which have been anticipated in the IDP but which have not materialized for motivated reasons. It can also relate to unforeseen circumstances which can also be explained and motivated;
- The adjustment must be substantiated through alignment with the Cluster’s SDBIP and Council’s approved IDP;
- The original approved budget process and guidelines must be used to compile the 2014/2015 adjustment budget and it was emphasised that it is not a new budget;
- Clusters were required to reprioritize within their approved operating and capital budget allocations in accordance with the cost containment report as approved by the accounting officer;

DISCUSSIONS

The budget approach concluded with all Clusters was applied by taking the following principles into account:

- In line with Councils’s mid-term report;
- Cluster to eliminate all luxury items;
- Programs to be performed in house first with limited use of consultants by all Clusters;
- Moratorium be placed on filling of non-critical vacancy and attrition positions, subject to Accounting Officer approval;
- Moratorium on controllable salary line items such as acting, overtime and car allowance;

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- Clusters to reduce costs on congresses and meetings and subsistence and travel where priority must be placed on the use of Council owned vehicles.

As per annexure “A” the original approved budget for 2014/2015 indicates a net operating surplus of R40 388. The adjustment budget however reflects that Council will incur a net operating surplus of R79 988 based on projects by Clusters in delivering their respective SDBIPs. The capital budget will however decrease in budgeted expenses from R17 237 736 to R16 808 436. The amount on the capital budget will be financed from the accumulated surplus as determined by the GRAP principles and accounting standards.

During the compilation of the adjustment budget, various over and under expenditure and income deviations mainly in the general expenses category were found. The adjustment budget for the operating budget in relation to the expenditure category was increased by R30 946 218. The income budget in respect of the income category was increased by R30 985 818 and the capital expenditure budget was decreased by R429 300 as per Annexure “B”.

RECONCILIATION SUMMARY ON A BALANCED BUDGET

	ADJUSTMENT BUDGET 2015/16
TOTAL EXPENDITURE	379,803,993
TOTAL REVENUE	-379,883,981
(SURPLUS)/DEFICIT	-79 988

Although Council is closing with a surplus on the operating budget it must be emphasized that it is not significant, therefore cost containment measures still need to apply to maintain our cash flow projections and reserves invested. The contributors towards the total expenditure budget are attributed to the OR Tambo games, consultation fees, workshops and an allocation of an additional grant relating to housing where there will be an associated expense.

The proposed solutions to the current scenario planning for Council are:

- Maintain a moratorium on filling of non-critical vacancy and attrition post to generate a saving on the salary budget on a prioritization level subject to the approval of the Accounting Officer;
- Moratorium through collective labour on controllable line items on the salary budget such as overtime and acting allowances;
- Sourcing for additional revenue streams through the application of grant, subsidy, donor funding and miscellaneous income functions e.g. advertising on bill boards, EPWP, etc.;

The detailed motivations of the above principles applied are substantiated in points 1 – 3 below:

Operating Expenditure Budget

The salary budget has an impact in the adjustment budget with a decrease of R357 782. The decrease in budget relates to the moratorium on vacancies whereby resignations had the major impact on saving generated.

The other major operating adjustments in the various Clusters are illustrated as follows:

Contracted Services

Contracted services show an increase of R365 953 in order to provide for ad-hoc security, contractual obligated security provision and maintenance contracts on Council facilities.

Workshops

Workshops show an increase of R1,33 million which relates to the following events:

- State of District Address (SODA)
- Commemoration days
- Youth Development Program

Consultation fees

An increase of R2,674 million is to address the wetlands study and the attraction of foreign direct investment into the region.

Bank Charges

There was a shift in allocation from contracted services to bank charges due to a change in operations which amounts to R1,159 million.

Licence fees

An increase of R1,447 million relates to the contractual obligations on software programmes and other licensing fees still payable which include anti-virus, Novell, Helpdesk and backup licences.

Grants and subsidies paid

Grants and subsidies paid have increased with R1,4 million which relates to the refurbishment of the licensing offices which are registered in the name of the Local Municipalities

General Expenses from grants

General expenses increased with R13,133 million with a contra revenue receivable from the Gauteng Department of Housing based on the promulgation in DOR Act relating to the registering of RDP houses to the correct owners.

Maintenance – buildings, fences and sites

An increase of R1,376 million relates mainly to the Bophelong Intermodal Hub with an allocation of R1 million while the remaining amount is linked to expenses associated with the TIE and Corporate Services clusters.

Income Budget

The major changes within the income budget are:

- The grants and subsidy allocation has increased with R13,133million as a result of the transfer of Housing funds from the Department of Housing; and
- Recognition of the contingent assets shown in the financial statements related to the EMS unfunded mandate which must be recognised in terms of GRAP 19. The amount received equates to R25 million.
- Decrease in license revenue, market revenue and rental of facilities revenue as well as unallocated revenue is envisaged based on current trends. The relevant Clusters are urged to improve on their operations to meet the targeted income.

Capital Expenditure Budget

The changes within the capital budget are as follows - See annexure “D”:

- Networks increased with R1,767 million also as a result of the expansion of the optic fibre project to Midvaal Local Municipality;
- Capital projects decrease by R2,447 million based on the shifting of these funds to operational expenditure within the Licensing Department

The adjustment budget for 2014/2015 is attached to the report as Annexures “A –E”.

* Schedule & Funding Reconciliation	-	Annexure “A” (pages 1 - 31)
** Statement of Financial Performance	-	Annexure “B”(pages 32-43)
*** Adjustment Budget per Cluster for 2014/2015	-	Annexure “C”(pages 44 122)
****Adjustment Capital Projects Budget 2014/2015	-	Annexure “D” (page 123)
*****Graphical Illustrations	-	Annexure“E”(pages 124-125)

In conclusion, Section 18(1) and (2) of the MFMA provide for Council to close a deficit budget as stipulated below.

“FUNDING OF EXPENDITURE”:

(1) An annual budget may only be funded from -

- (a) Realistically anticipated revenues to be collected;*
- (b) Cash-backed accumulated funds from previous years’ surpluses not committed for other purposes; and*
- (c) Borrowed funds, but not only for the capital budget referred to in section 17 (2).*

- (2) *Revenue projections in the budget must be realistic taking into account –*
- (a) *Projected revenue for the current year based on collection levels to date;*
and
 - (b) *Actual revenue collected in previous financial years.*

RECOMMENDED

1. THAT the 2014/2015 Adjustment Budget, attached to the report in the prescribed budget formats as received from National Treasury outlined below, be hereby approved:

B Schedule & Funding Reconciliation	-	Annexure “A”
Statement of Financial Performance	-	Annexure “B”
Adjustment Budget per Cluster for 2014/2015	-	Annexure “C”
Adjustment Capital Projects Budget 2014/2015	-	Annexure “D”
Graphical Illustrations	-	Annexure “E”
2. THAT the Adjustment Budget report be read in conjunction with the mid-term performance and financial reports.
3. THAT the recognition of the R25 million income as per GRAP 19, be hereby approved.

