

**ADJUSTMENT BUDGET 2010/2011 FINANCIAL YEAR
(E/ 2011 02 28, C2011 02 28) (5/1/3/2)**

**REPORT OF THE DEPARTMENT OF THE CHIEF FINANCIAL
OFFICER (MR A.J.J. LE GRANGE)**

PURPOSE OF THE REPORT

The purpose of this report is to inform Council of the 2010/2011 budgeted versus the actual figures and to obtain Council's approval to revise the approved 2010/2011 Annual Budget through an Adjustment Budget.

BACKGROUND

Section 23 of the Budget Regulations published on 17 April 2009 in terms of Section 168 of the Municipal Finance Management Act, 2003 determines that an Adjustment Budget may be tabled in the Municipal Council at any time after the mind-year budget and performance assessment has been tabled in council, but not later than 28 February of the current year. It also determines that only one adjustment budget may be tabled in the Municipal Council during a financial year except when additional revenue is allocated to a municipality by National or Provincial Government.

The Municipal Finance Management Act determines that the accounting officer of the Municipality must by 25 January assess the performance of the Municipality during the first half of the financial year and make recommendations as to whether any adjustment budget is necessary. If an adjustment budget is required it must be supported by revised projections of revenue and or expenditure to the extent that this may be necessary.

LEGAL REQUIREMENTS

Chapter 4 Section 28 of the Local Government Municipal Finance Management Act. No. 56 of 2003 determines the following with regard to the Municipal Adjustment Budget.

"28. Municipal Adjustment Budgets

- 1) A Municipality may revise an approved annual budget through an adjustment budget.***

- 2) **An adjustment 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, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality.**
 - (d) **May authorize the utilization of projected savings in one vote towards spending under another vote;**
 - (e) **May authorize 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 adjustment budget must be in a prescribed form.**
- 4) **Only the Mayor may table an adjustment budget in a municipal council, but an adjustment budget in terms of subsection (2) (b) to (g) may only be tabled within any prescribed limitations as to timings or frequency.**
- 5) **When an adjustment budget is tabled, it must be accompanied by:-**
 - (a) **an explanation how the adjustment 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 financial recovery plan.***
- 7) ***Section 22(b), 23(3) and 24(3) apply in respect of an adjustment budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustment budget.***

29. Unforeseen and unavoidable expenditure

- 1) ***The Mayor of the municipality may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget,***
- 2) ***Any such expenditure:***
 - (a) ***Must be in accordance with any framework that may be prescribed;***
 - (b) ***May not exceed a prescribed percentage of approved annual budget;***
 - (c) ***Must be reported by the mayor to the municipal council at its next meeting; and***
 - (d) ***Must be appropriated in an adjustment budget.***
- 3) ***If such adjustment budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorized and section 32 applies."***

Chapter 5 Section 71 of the Municipal Budget and Reporting Regulations published in terms of Section 168 of the Municipal Finance Management Act, 2003 determines the following:

Authorisation of unforeseen and unavoidable expenditure

- 71. (1) *The Mayor of a Municipality may authorize expenditure in terms of Section 29 of the Act only if:-***
- (a) ***The expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and***
 - (b) ***The delay that will be caused pending approval of an adjustments budget by the municipal council in terms of Section 28(2)(c) of the Act to authorize the expenditure may:-***
 - (i) ***Result in significant financial loss for the municipality;***

- (ii) *Cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;*
 - (iii) *Lead to loss of life or serious injury or significant damage to property; or*
 - (iv) *Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.*
- (2) **The Mayor of a municipality may not authorize expenditure in terms of section 29 of the Act if the expenditure:-**
- (a) *Was considered by the Council, but not approved in the annual budget or an adjustments budget;*
 - (b) *Is required for:-*
 - I Price increases of goods or services during the financial year;*
 - II New municipal services or functions during the financial year;*
 - III The extension of existing municipal services or functions during the financial year;”*

EXECUTIVE SUMMARY

The Adjustment Budget process is governed by the Municipal Finance Management Act 56 of 2003 and the objectives are:

- To manage any adjustment to the approved operational and capital budgets in such a manner that it will enhance the quality of life of the citizens; and
- To ensure that all adjustments to the approved budget be done in accordance with legislation; and
- To manage the financial affairs of the Municipality in such a manner that sufficient cash resources are available to finance the adjustments to the approved budget of the Municipality.

Council is aware that the global economy is recovering from the deepest recession since the Second World War, that this recession impacted negatively on the economic circumstances South Africa finds itself in and the negative effect that job losses have on our economy. All factors that also impact negatively on consumers in Greater Tzaneen Municipality to maintain a decent standard of

living and the ability to pay rates and service charges. The fact that the payment rates in some of our areas are only 18% is witness thereof.

It is therefore not strange that Greater Tzaneen Municipality is struggling to maintain a high payment level.

The fact that only one adjustment budget per year is allowed forces municipalities to plan ahead and to make sure that the spending patterns are kept below the actual money received.

APPROVED OPERATIONAL BUDGET

BUDGETED INCOME

| Description | Amount |
|---------------------------------|---------------------|
| Tzaneen Budget | R571 798 669 |
| MDM Water Budget | R 72 107 884 |
| MDM Sewer Budget | R 8 564 004 |
| MDM Environmental Health Budget | R 10 000 |
| Prov. Community Health Budget | <u>R 0</u> |
| TOTAL BUDGET | <u>R652 480 557</u> |

The 2010/2011 expenditure budget which has been approved by Council can be summarized as follows: (This budget includes the capital budget)

BUDGETED EXPENDITURE

| Description | Amount |
|---|---------------------|
| Operational Budget Tzaneen | R503 712 930 |
| Operational Budget Water MDM | R 67 879 310 |
| Operational Budget Sewer MDM | R 7 832 844 |
| Operational Budget Environmental Health | R 3 890 790 |
| Operational Budget Community Health | R 187 845 |
| Capital Budget: Grants & Own Sources | <u>R 0</u> |
| TOTAL BUDGET | <u>R583 503 719</u> |

CASH FLOW PROJECTIONS

The cash-flow report for the 2010/2011 financial year can be summarized as follows:

ANTICIPATED ACTUAL INCOME

The anticipated actual income can be summarized as follows:

| Description | Actual July to December | Anticipated Actual Income 12 Months |
|-------------------------|-------------------------------|--|
| Debtors receipts | R170 174 809 | R350 384 579 |
| Sundry Receipts | R 611 161 | R 1 611 161 |
| Grants Equitable Share | R146 565 268 | R253 538 000 |
| Other | R 17 168 439 | R 39 903 192 |
| Deposits | R 113 960 | R 170 940 |
| Unknown Direct Dep. | R 1 314 605 | R 1 577 526 |
| Interest on Investments | <u>R 158 598</u> | <u>R 158 598</u> |
| Income | <u>R336 106 840</u> | <u>R647 343 996</u> |

The anticipated actual income for the 2010/2011 financial year amounts to R647 343 996 which is 0,8% less than the budgeted income of R652 480 557.

If the payment rate is increased by 1,4% the total budgeted amount will be recovered.

ANTICIPATED ACTUAL EXPENDITURE

The anticipated actual expenditure can be summarized as follows:

| 2010/2011 | BUDGETED EXPENDITURE | ANTICIPATED EXPENDITURE | DEVIATION |
|---------------------------|-------------------------|----------------------------|-------------|
| Salaries | 136 792 123 | 132 026 584 | 4 765 539 |
| Social Contributions | 25 884 573 | 24 763 349 | 1 121 224 |
| Employee Cost Capitalized | -6 605 350 | 0 | -6 605 350 |
| Employee Cost Opex | -74 936 743 | -61 983 526 | -12 953 215 |
| Remuneration Councillors | 16 070 480 | 15 262 958 | 807 522 |
| Bad Debts | 11 815 140 | 11 815 140 | 0 |
| Collection Cost | 100 000 | 169 353 | -69 353 |
| Inventory Loss | 0 | 0 | 0 |
| Depreciation | 24 917 316 | 24 917 316 | 0 |
| Repairs & Maintenance | 108 283 875 | 114 422 565 | -6 138 690 |
| Interest Ext. Borrowing | 14 372 514 | 14 372 514 | 0 |
| Bulk Purchases | 172 660 104 | 184 404 186 | -11 744 082 |
| Contracted Serv. | 59 813 589 | 37 428 428 | 22 385 161 |
| Grants & Sub | 23 492 051 | 23 492 051 | 0 |
| General Expenditures | 70 844 047 | 74 325 877 | -3 481 830 |
| TOTAL | 583 503 719 | 595 416 793 | -11 913 074 |

These figures do not include capital expenditure.

ANTICIPATED INCOME AND EXPENDITURE

| | |
|------------------------------------|---------------------|
| Anticipated Income 30/06/2011 | R543 840 927 |
| Anticipated Expenditure 30/06/2011 | R473 281 780 |
| Anticipated Operational Surplus | R 70 559 147 |
| Anticipated Capital Expenditure | <u>R 90 484 940</u> |
| Anticipated Short fall | <u>R 19 925 793</u> |

DELIBERATIONS

It is required from Municipalities to table a balanced budget, based on realistic estimates of revenue and expenditure that are consistent with their budgetary resources and experiences. The needs of the communities and residents have to be met as far as possible and it should be achieved within the financial capacity and resource constraints of the Municipality. Many hours are spent to prepare and approve a budget which is fair and well balanced and normally has the support of all political parties. Unfortunately there are always elements, which cannot be predicted. These elements may result in the overspending of the approved budget.

The 2010/2011 financial year is no exception and the infrastructure of Greater Tzaneen Municipality has been seriously affected due to the unusual rain pattern experienced the past few months. Roads in all towns are in a terrible state to the extent that it is unsafe for use by the public. River crossings and electricity lines have been washed away, transformers have been flooded and their poles fallen over and a 2MVA transformer has been moved of its plinth and some of our electricity consumers were without electricity for more than 2 weeks. To address this issue additional funds will have to be allocated to the Civil Engineering and Electrical Engineering departments to ensure a safe environment for the public..

The following requests for adjustments on the 2010/2011 approved budget have been received from the Directors.

Before the requests are summarized Council needs to be informed of the budgeted versus the actual expenditure for the six months of the different votes / departments.

| ACTUAL VOTE/DEPARTMENT | BUDGET | FOR 6 MONTH |
|-----------------------------------|---------------------|---------------------|
| Municipal Manager | R 7 677 655 | R 5 426 206 |
| PED | R 31 348 742 | R 7 301 197 |
| Financial Services | R 41 317 927 | R 19 927 659 |
| Corporate Services | R 52 698 098 | R 24 795 747 |
| Engineering Services | R130 330 089 | R 53 023 543 |
| Community Services | R102 303 489 | R 52 977 264 |
| Electrical Services | <u>R242 827 719</u> | <u>R119 121 551</u> |
| | <u>R608 503 719</u> | <u>R282 573 166</u> |

It is evident from the above mentioned summary that the department of the Municipal Manager, has to take extra care of its budget to prevent an overspending.

OPERATIONAL EXPENDITURE REQUESTS

The requests for adjustments receive from the Directors can be summarized as follows:

FINANCIAL SERVICES: REQUESTS

| VOTE | DESCRIPTION | DIVISION | AMOUNT |
|--------------|------------------|-------------|-------------------|
| 035 078 1306 | Bank Admin Fees | Expenditure | R 723 000 |
| 033 078 1330 | Insurance Claims | Fin. Serv. | <u>R4 000 000</u> |
| | | | <u>R4 723 000</u> |

CORPORATE SERVICES: REQUEST

| VOTE | DESCRIPTION | DIVISION | AMOUNT |
|--------------|-----------------------|-------------|-----------------|
| 038 066 1106 | Comp. Equipm & Softw | Inf, Techn | R 39 000 |
| 052 078 1348 | Printing & Stationary | Corp. Serv. | R100 000 |
| 052 078 1366 | Telephone | Corp. Serv. | R 40 000 |
| 057 078 1341 | Member Fees SAIGA | Corp. Serv. | R530 264 |
| 057 078 1322 | Public Entertainment | Corp.Serc. | <u>R100 000</u> |
| | | | R809 264 |

ENGINEERING SERVICES: REQUESTS

| VOTE | DESCRIPTION | DIVISION | AMOUNT |
|--------------|-----------------------|-----------------|--------------------|
| 063 066 1134 | Storm water Drainage | Roads & Stormw. | R 7 700 000 |
| 063 066 1138 | Tarred Roads | Roads & Stormw. | R 6 600 000 |
| 073 074 1273 | Cont. Serv. Water | Water | R 6 500 000 |
| 083 072 1252 | Bulk Purchases | Water | R 296 032 |
| 063 066 1142 | Gravel Roads | Roads & Stormw | R 7 800 000 |
| 063 078 1310 | Consult. & Prof. Fees | Roads & Stormw | <u>R 2 000 000</u> |
| | | | R30 896 032 |

COMMUNITY SERVICES: REQUESTS

| VOTE | DESCRIPTION | DIVISION | AMOUNT |
|----------------|-----------------------|-------------|---------------------------------|
| 133 074 1264 | Cont. Serv. Refuse | Solid Waste | R1 200 000 |
| 134 074 1265 | Cont. Serv. Cleansing | Solid Waste | <u>R6 300 000</u> R7 500 000 |
| TOTAL REQUESTS | | | <u>R43 928 296</u> |

OPERATIONAL EXPENDITURE ALREADY COMMITTED

Included in the requests mentioned above are the following expenditure already committed for the 2010/2011 financial year. Note must be taken that the amounts committed are in addition to what have been budgeted for:

| LINE ITEM | DESCRIPTION | REVISED BUGET | COMMITTED BUGET |
|--------------|--------------------------------|--------------------|--------------------|
| 063 066 1134 | Storm water Drainage | R 2,230,432 | R 1,566,797 |
| 063 066 1138 | Tarred Roads | R 6,565,384 | R 4,804,401 |
| 063 066 1142 | Gravel Roads | R 4 420 000 | R 5,360,000 |
| 073 074 1273 | Contr. Serv. Water Supply | R 3,076,000 | R 6,500,000 |
| 133 074 1264 | Contr. Serv. Refuse Removal | R 9,750 000 | R 3,320,000 |
| 134 074 1265 | Contr. Serv. Cleaning Services | R 1 700 000 | R 6,300,000 |
| 035 078 1306 | Bank Administration Fees | R 456,445 | R 723,000 |
| 057 078 1341 | Membership fees SAIGA | R 467,253 | R 530 264 |
| 083 072 1252 | Bulk Purchases | R 777,783 | R 900,000 |
| 144 074 1263 | Contr. Serv. Security Serv. | <u>R 3,539,796</u> | <u>R 4,990,000</u> |
| TOTALS | | <u>R32,983,093</u> | <u>R34,994,462</u> |

It must also be mentioned that a settlement agreement was reached with the previous Municipal Manager to prematurely exit his contract. The monetary value of the remainder of his contract had to be paid to him which will result in an overspending of the budgeted amount. Provision will have to be made on the adjustment budget to accommodate the anticipated over expenditure.

Section 71(i) of the Municipal Budget and Reporting Regulations determines that the Mayor of a Municipality may authorize expenditure that could not have been foreseen at the time the annual budget of the Municipality was approved, if the delay in approval will:

- result in significant financial loss for the Municipality.
- cause a disruption or suspension, or a serious threat to the continuation of a basic municipal service.

- lead to loss of life or serious injury or significant damage to property.

The fact that Mopani District has been declared a disaster area, due to heavy rain supports the approval of overspendings on storm water drainage, tarred road, gravel roads, water supply and electricity distribution. The Municipal Budget and Reporting Regulations provides that the Mayor of a Municipality may authorize the expenditure mentioned above to the amount of R15 million in the case of a municipality with an approved total revenue budget greater than R500 million as in the case of Greater Tzaneen Municipality. Council can therefore approve an adjustment budget for R15 million to accommodate damages to infrastructure caused by the rain storms.

The Act also provides that an adjustment budget can be approved when additional funds are allocated to Municipality's by National or Provincial Government. Another adjustment budget will therefore be drafted to accommodate possible overspendings caused by heavy rain once the disaster relieve allocation has been published.

With regard to refuse removal, cleansing services, security and other services the Act clearly states that the Mayor may not authorize the expenditure if the expenditure:

- was considered by Council but not approved.
- if there were price increases of goods and services during the financial year.
- for new municipal services or functions.
- for the extension of existing municipal services or functions.

The overspending of line items which may result in the overspending of any vote/department will have to be managed to prevent overspendings, seeing that no saving could be identified to accommodate any possible overspending.

The Municipal Finance Management Act determines that Senior Managers are responsible for managing their respective votes/department and that powers and duties for this purpose have been delegated in terms of Section 79.

Each Senior Manager must exercise financial management and take all reasonable steps within their respective departments to ensure that any unauthorized, irregular or fruitless and wasteful expenditure and any other losses are prevented.

CAPITAL EXPENDITURE REQUESTS

The adjustments with regard to capital projects can be summarized as follows:

| <u>Over Expenditure</u> | <u>Savings</u> | <u>Amount</u> |
|-------------------------|----------------------------|---------------|
| Roads | Electricity | R5 000 000 |
| Roads | Refurbishment of boreholes | R2 000 000 |
| Library Aircons | Refurbishment of boreholes | R 100 000 |
| Library Aircons | Finance IT | R 100 000 |

INCOME

Additional income that has been allocated to Greater Tzaneen Municipality in terms of Government Gazette No. 33879 of 15 December 2010 can be summarized as follows:

EQUITABLE SHARE

| | |
|-----------------------------------|--------------|
| 2010/2011 Allocation | R154 949 000 |
| Adjustment: Additional Allocation | <u>R 0</u> |
| | R154 949 000 |

The equitable share allocation promulgated in the Government Gazette (DORA) is R154 million. Confirmation was received through Government Gazette No. 33879 that no adjustment has been effected on this allocation.

NEIGHBORHOOD DEVELOPMENT GRANT

| | |
|-----------------------------------|-------------------|
| 2010/2011 Allocation | R2 000 000 |
| Adjustment: Additional Allocation | <u>R1 500 000</u> |
| | <u>R3 500 000</u> |

An adjustment of R1,5 million has been promulgated in the Government Gazette. Council must however take cognizance that this allocation is for technical assistance and must not be included in our budget.

INTEGRATED NATIONAL ELECTRICAL PROGRAMME

| | |
|--------------------------------|---------------------|
| 2010/2011 Allocation | R8 864 000 |
| Adjustment: Reduced Allocation | <u>(R1 097 000)</u> |
| | <u>R7 767 000</u> |

The Grant allocation for the Integrated National Electrical Programme has been reduced by R1 097 000. This is however an ESKOM grant and is not included in the budget of Greater Tzaneen Municipality.

Seeing that the above mentioned allocations represent Grants-in-kind it can be regarded that no additional income has been allocated to Greater Tzaneen Municipality.

RECOMMENDATIONS

- a) That the following adjustments with regard to operational expenditure be approved:

| Line Item | Description | Adjustment |
|--------------|-----------------------|--------------------|
| 063 066 1134 | Storm water Drainage | R 2 256 399 |
| 063 066 1138 | Tarred Roads | R 5 494 001 |
| 063 066 1142 | Gravel Roads | R 6 049 600 |
| 173 066 1130 | Elect. Distr. Network | <u>R 1 200 000</u> |
| | | <u>R15 000 000</u> |

- b) The following overspendings and corresponding savings with regard to salaries be approved:

| Division | Over Expenditure | Saving | Amount |
|-------------------|------------------|------------|------------|
| Municipal Manager | 002 051 1001 | | R2 000 000 |
| SCM | 039 051 1001 | R1 000 000 | |
| Roads | 063 051 1001 | R1 000 000 | |

- c) That no adjustment with regard to operating income be approved.
- d) That the following overspendings and corresponding savings with regard to capital projects be approved.

| DIVISION | OVER EXP. | SAVINGS | AMOUNT |
|-------------|--------------|--------------|------------|
| Roads | 063 600 5102 | | R3 775 000 |
| Roads | 063 600 5102 | | R1 225 000 |
| Electricity | | 173 600 5105 | R3 775 000 |
| Electricity | | 183 600 5105 | R1 225 000 |

| | | | |
|------------|--------------|--------------|------------|
| Library | 123 602 5118 | | R 100 000 |
| Library | 123 602 5118 | | R 100 000 |
| Water | | 073 608 5103 | R 100 000 |
| Finance IT | | 038 608 5122 | R 100 000 |
| Roads | 063 600 5102 | | R2 000 000 |
| Water | | 073 608 5103 | R2 000 000 |

- e) That another adjustment budget be submitted to Council for approval once the disaster relieve fund allocation has been published.
- f) That Directors manage their respective votes/departments in the municipality in terms of Section 77 of the MFMA to ensure that no overspending occurs at 30 June 2011.
- g) That the adjustment budget and supporting documentation be submitted to National Treasury and Provincial Treasury in both printed and electronic format within 10 working days after approval by Council in terms of Section 28(7) of the Act.

DEPARTMENTAL COMMENTS

COMMENTS FROM CORPORATE SERVICES

COMMENTS FROM ENGINEERING SERVICES

COMMENTS FROM ELECTRICAL ENGINEERING

**COMMENTS FROM PLANNING AND ECONOMIC
DEVELOPMENT**

COMMENTS FROM COMMUNITY SERVICES

COMMENTS FROM THE CFO

COMMENTS FROM THE MUNICIPAL MANAGER

COMMITTEE OUTCOME OR STUDY GROUP OUTCOMES

RESOLVED TO RECOMMEND

ATTACHMENT