

SOL PLAATJE MUNICIPALITY



"The city that sparkles"

ADJUSTMENT BUDGET 2010/11

28 February 2011

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PART 1

ADJUSTMENT BUDGET

1. MAYOR'S REPORT

25 February 2011

Honorable Speaker, Mayoral Committee Members, Fellow Councillors, Municipal Manager, members of the Business Forum and the general public.

A budget is a tool to achieve the demands of the community. We have tabled a budget in the year before which was in line with the Integrated Development Plan. We have also in the last year focused on improving the functionality of the Municipality and have looked at all aspects of the organization.

Today I can proudly say we have achieved considerable success such as

- Improved debt collection
- Improved capital spending
- Better control with regarding to spending to but a few examples.

Our indigent policy has been reviewed and changed to accommodate both the asset indigents and the income indigents enabling us to reach out even more to the poorest of the poor. The upliftment on development in the city will see a further broadening of our tax base resulting in more revenue passing through our coffers.

The signing of the long term loan with the DBSA further emphasize the confidence shown in the city by financiers which bodes well for the future

I am indeed proud to present to you this morning, an adjustment budget as prescribed by the act. In terms of the Municipal Finance Management Act(Act 56 of 2003), a municipality may revise an approved annual budget through an adjustments budget.

In most cases, it is extremely difficult for any local authority to stay within an approved budget as it more often than not exposed to external influences which ultimately lead to certain adjustments to be affected. Whilst everything possible was done to remain within the confines of the approved budget, this could not be attained and are we forced to bring about adjustments.

It was necessary to adjust the Operating Revenue from the approved R1,018,430 to R1,037,898. This excludes internal charges and cross subsidization which amounts to R85,089m. This reflects an increase of R19,468m.

In order to maintain a balanced budget, the Operating Expenditure needed to be adjusted by the same figure.

Grants and subsidies constitute the biggest increase as it jumps from an approved amount of R129,037m to R146,436m representing an increase of R17,399million. There was also a marginal increase of R4,069m in Property rates income. Interest on Debtors projects a decrease of R3m which seems to indicate a slight improvement in our recovery rates.

The Operating Expenditure had to be adjusted accordingly to bring it in line with the Operating Revenue. A disturbing fact is the huge increase in personnel expenditure from the approved R329,043m to R359,043m. Luckily this could be offset by savings of R15,772m on depreciation as well as interest on external borrowing and a saving of R2m on bulk purchases.

It was necessary to decrease the Capital budget from the approved R304,673m to R119,469m as most projects would not achieve their budget targets by 30 June 2011. It is foreseen that R36,63m will be spent until 30 June 2011 on the R190m loan. The balance of the loan will be spend in the next financial year starting 1 July 2011s.

Madam Speaker

It is disconcerting to note that we are still not able to spend grant monies. This reflects poorly on us as a municipality and it further illustrates the fact that the different processes to achieve our milestones is still too cumbersome.

The targets that we set in our Service Delivery and Budget Implementation plans will also reflect poorly as it ultimately leads to poor service delivery as we cannot meet our targets. The approval of this adjustment budget and the adoption of the mid-year performance report, warrants a revision of the Service delivery and Budget Implementation Plan.

The revision of the SDBIP will be done in full compliance with section 54 (1) (c) of the MFMA .

Honorable Speaker,

I hereby recommend the following adjustment Budget Related resolutions:

2. ADJUSTMENT BUDGET RESOLUTIONS

Approval of Adjustment Budget for the year ending 30 June 2011

(Ald P Everyday)

Purpose

The purpose of this report is to table an adjustment budget for the financial year ending 30 June 2011

ANNEXURE

p.

Background Information

After careful consideration of the monthly performance of the approved adjusted capital and operational budgets, it became necessary that the municipality's budgets be adjusted to reflect the actual performance as well as the projected performance for the rest of the financial year.

Section 28 of MFMA requires a municipality to revise an approved annual budget through an adjustment, and section 28 (4) requires that only the mayor may table an adjustment budget in the municipal council.

There are various factors that lead to the revision of the approved budget as detailed per the annexure

Financial implications

There are no further financial implications other than as indicated in the annexure.

Consultation

All Executive Directors and Senior Managers were consulted.

Contact details

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RECOMMENDATION:

1. That the adjusted capital and operational budgets be approved as tabled in the annexure.
2. That the relevant stakeholders be informed as per the MFMA requirements.
3. Council resolved that the following budget related policies remains unchanged.
 - Tariff Policy
 - Property Rates Policy
 - Budget Policy
 - Asset Management Policy
 - Indigent Household Consumer Policy
 - Credit Control, Debt Collection and Consumer Care Policy
 - Investment Policy
 - Supply Chain Management Policy

3. EXECUTIVE SUMMARY

FOREWORD

As we reflect on the events leading up to the tabling of this adjustment budget we can with confidence state that our objective to stabilize the overall functionality of the Municipality has yielded positive results.

All committees are functioning properly, decisions are properly and procedurally taken, and reports timeously and correctly tabled. The required overall financial position of Sol Plaatje Municipality has improved and capital spending being within a required norm. In terms of improved audit outcomes we are on track to achieve a clean audit earlier than the projected date of 2014.

Investment Plans were approved by Council which will see a huge capital injection in infrastructure over the next 24 months. This lays the basis to unlock development in Sol Plaatje Municipality well into the next 10 years.

Positive feedback has also been received from external bodies such as National Treasury and Development Bank of South Africa with Moody's reflecting a "positive" outlook for the Sol Plaatje Municipality.

Admittedly, much work lies ahead, but we can with confidence state that the Sol Plaatje Municipality functions at a higher level and meets its service delivery plans with few exceptions

G H AKHARWARAY
MUNICIPAL MANAGER

In accordance with Section 28 of the Municipal Finance Management Act, 56 of 2003, a municipality may revise an approved annual budget through an adjustment budget. In terms of Section 72 (3) of the MFMA, the Accounting Officer must as part of review, make recommendations as to whether an adjustment budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary. An adjustment budget may authorise the following:

- a) Provide for any other expenditure within a prescribed framework.
- b) Correct any errors in the annual budget (Budget overstated and under-stated)
- c) Spending of funds that were unspent at the end of the past financial year where under-spending could not reasonably have been foreseen at the time to include correctly projected roll-over amounts when the annual budget for the current year was approved by Council.
- d) Appropriation of projected savings in one vote towards spending under another vote.

3.1.1. Summary of Revenues and Financing Activities

Budgeted Standard Item	Original Budget	Adjustments	Adjusted Budget
	R'000	R'000	R'000
	R	R	
Own Revenue	889,393	2,069	891,462
Equitable Share	121,741	-	121,741
Conditional Grants-Operational	7,296	17,399	24,695
Conditional Grants-Capital Financing	99,673	-30,666	69,006
Other financing – Borrowing	190,000	-153,370	36,630
Other Financing	15,000	-1,168	13,832
Total Revenue and Financing	1,323,103	-165,736	1,157,367

The above table illustrates summaries of revenues and financing activities. The total estimated revenue is increased from R1,018 billion to R1,037 billion. The changes of the budgeted revenues were as follows:

Revenue from Property Rates was increased with R4,069m from R208,3 m to R212,3 m.

Revenue to be collected from own sources of income (services charges) is increased by R3m from R582,6 m to R585,6 m.

Revenue from External Investments be decreased from R6 m to R4 m.

Interest on Outstanding Debtors be decreased from R38 m to R35 m.

Total operational allocation from Provincial Government increased by R17,399 million from R7,296m to R24,695m.

3.1.2. Adjustment on Grants and Subsidies

Budgeted Standard Item	Original Budget	Adjustments	Adjusted Budget
	R'000	R'000	R'000
Operational Grants			
Financial Management Grant	1,200	-	1,200
MSIG	750	-	750
Municipal Infrastructure Grant	1,329	-	1,329
Equitable Share	121,741	-	121,741
Provincial Government	4,017	17,399	21,416
Sub-total Operational	129,037	17,399	146,436
Capital Grants			
Municipal Infrastructure Grant	33,165	-	33,165
NDPG	19,300	-9,268	10,032
EPWP	14,984	-14,984	-
DBSA	-	3,300	3,300
Department of Minerals & Energy	8,500	-6,000	2,500
Provincial Grants	23,723	-7,406	16,317
FBDM	-	1,624	1,624
Sub-total Capital	96,273	-30,666	69,006
Total Grant & Subsidies	228,709	-13,267	215,442

The table above shows revisions made by National and Provincial Government to the main conditional grant funding and subsidies. It should be noted that the NDPG has been gazetted by National Treasury but the funds are not transferred to Sol Plaatje Municipality. Equitable share was not adjusted for the period under review. In terms of the allocation from the Department of Public Works for the EPWP projects an amount of R14,984 m which was included in the Capital Programme will be transferred to the Operational budget.

3.1.3. Adjustment on Budgeted Revenues

The 2010/11 budget was approved in council on 31 May 2010 with detailed municipal revenue estimates amounting to R1,018 billion for the financial year ending 30 June 2011. The estimates were increased by R19,468 million to finance key programmes in the Integrated Management Development Plan.

The revenue analysis illustrates that the municipality will be able to collect the budgeted revenues taking into account that there has been sufficient provision made for bad debts. The 2010/11 budget adjustment changes the main allocation to R1,037 billion. Summary of the key adjustment on estimated revenues are reflected in the table below:

Revenue by Source	Approved Budget 2010/11 R'000	(Increase) Decrease 2010/11 R'000	Adjustment Budget 2010/11 R'000
Property Rates	-208,320	-4,069	-212,389
Service Charge	-582,600	-3,000	-585,600
Rental of Facilities and Eqm	-13,289	-	-13,289
Interest on External Investment	-6,000	2,000	-4,000
Interest on Outstanding Debtors	-38,000	3,000	-35,000
Fines	-5,778	-	-5,778
Licenses and Permits	-5,491	-	-5,491
Grants and Subsidies Operational	-129,037	-17,399	-146,436
Other Revenue	-29,915		-29,915
Total	-1,018,430	-19,468	-1,037,898

3.1.4. Adjustment of Budgeted Expenditures

OPERATING EXPENDITURE	Approved Budget 2010/11 R'000	Increase/ (Decrease) 2010/11 R'000	Adjustment Budget 2010/2011 R'000
EXPENDITURE			
Employee Related Costs	329,043	30,000	359,043
Remuneration of Councillors	14,612	-1,500	13,112
Collection costs	1,145	-	1,145
Depreciation	49,732	-15,772	33,960
Repairs and Maintenance	56,678	1,105	57,783
Bulk Purchases	241,000	-2,000	239,000
Grants & Subsidies: Paid	1,450	1,741	3,191
General Expenses: Other	209,084	9,894	218,978
Disposal of PPE	-	-	-
Contribution from Ops to Cap	-	-	-
Interest on External Borrowing	20,686	-4,000	16,686
Other adjustments and transfers	-	-	-
Contribution to Provision and Reserves	95,000	0	95,000
TOTAL ACTUAL EXPENDITURE BUDGET	1,018,430	19,468	1,037,898

The table above shows adjustments of main budget allocation per expenditure type. The total approved budget is R1,018 billion and the expenditure has been increased to R1,037 billion. The main adjustments are on the employee related costs (R30 m), Remuneration of Councillors (-R1,5 m), bulk purchases (-R2 m), Depreciation & asset impairment (-R15,772 m), Repairs and Maintenance (R1,105 m), Grants and Subsidies: Paid (R1,741m), Other Expenditure (R9,894 m) and Finance charges (-R2m). The total approved budget is increased by R19,468 million.

3.1.5 Summary of Expenditure per Municipal Vote

OPERATING EXPENDITURE BY VOTE	APPROVED BUDGET `2010/11 R'000	INCREASE/ (DECREASE) `2010/11 R'000	ADJUSTMENT BUDGET `2010/2011 R'000
EXPENDITURE			
Executive and Council	27,444	225	27,669
Municipal and General	185,322	17,050	202,372
Municipal Manager	13,983	0	13,983
Corporate Services	38,298	0	38,298
Community Services	120,380	-9,182	111,198
Financial Services	67,970	1,500	69,470
Strategy, Economic Development	27,148	50	27,198
Infrastructure and services	537,884	9,825	547,709
TOTAL ACTUAL EXPENDITURE BUDGET	1,018,430	19,468	1,037,898

The above table shows the increase of budget allocation per main Vote.

3.1.6. Summary of Expenditure Adjustment per Sub-Vote

Expenditure by Sub-vote	Original Budget R'000	Increase (Decrease) R'000	Adjustment Budget R'000
Executive and council	226,749	17,275	244,024
Budget and treasury office	61,819	1,500	63,319
Corporate services	46,691		46,691
Community and social services	45,311	-9,182	36,129
Sport and recreation	39,318		39,318
Public safety	26,597		26,597
Housing	10,663	5,012	15,675
Health	14,612		14,612
Planning and development	18,879		18,879
Road transport	45,945	3,875	49,820
Electricity	372,803	-7,500	365,303
Water	120,937	3,449	124,386
Waste water management	33,411	1,371	34,782
Waste management	33,756	3,618	37,374
Other	6,028	50	6,078
Total Expenditure - Sub-vote	1,103,519	19,468	1,122,987

The above table shows increase in expenditure allocation per sub vote.

4. ADJUSTMENT BUDGET TABLES

See annexure

PART 2

**SUPPORTING
DOCUMENTATION**

5. Adjustment to Budget Assumptions

The municipal budget adjustment has been necessitated by various factors, however it should be mentioned that Section 32 of MFMA read with para 28 of Budget Regulations did not necessitate the adjustment. Council has appointed Finance Committee to investigate all instances that are affected by Sec 32 of MFMA and make a recommendation.

There is an improvement in the collection rate of the municipality. In the budget statement 2010/2011, the municipality resolved to compensate rate payers by allowing a 5% discount on certain services if such a payment is made within the deadline. The impact of this cannot yet be measured.

At mid-term, 50.32% was spent versus a target of 55%. Due to heavy rains and storms more damage has been done to our infrastructure and additional funding is required to ensure sustainable service delivery with the emphasis on roads and stormwater.

Theft of water and electricity continues to threaten the revenue flowing to the municipality. Stricter monitoring of consumption is required especially with regards to electricity.

The adjustment budget prioritises service delivery programmes in line with resolutions taken
The following decisions were made to determine how the approved budget can be adjusted upwards and still take into account service delivery issues:

Employee related costs should be adjusted upwards to cover costs for posts filled and vacancies to be filled before end of the financial year.

Approval for overtime work will be for service delivery votes only.

Collection of electricity revenue should be prioritised

Full implementation of credit control and debt collection policy

6. ADJUSTMENT TO BUDGET FUNDING

6.1. Tariff Schedule

The tariff schedule for 2010/11 remains unchanged

6.2. Investments

The municipality is working on ways to increase its reserves and subsequently as at end of December 2010 the municipality had R75,7 million held in investments

7. REVISED SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN SDBIPs

The revised Service Delivery and Budget Implementation Plan (SDBIPs) has been attached as an annexure.

8. ADJUSTMENT TO GRANTS MADE BY THE MUNICIPALITY

See Table SB10 Transfers and Grant by the Municipality (Supporting Tables)

9. ADJUSTMENT TO EXPENDITURE ALLOCATIONS AND GRANTS PROGRAMMES

None

10. ADJUSTMENT TO COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

10.1. Budgeted Salaries and Remuneration

The provision for salaries was calculated according to the current approved organo-gram. Due to the absorption of contract workers to permanent employees the employee related costs has been adjusted upwards to make provision for these costs.

10.1.1. Employee Related Costs

The staff salaries have been increased by 8,48% from 01 July 2010 across the board.

10.1.2. Councillors Allowances

Table : Councillors allowances

Position	Adjusted 2010/11
Mayor (Full-time)	659,365
Speaker (Full-time)	516,370
Chief Whip (Full-time)	-
Member of Mayoral Committee	4,367,254
Total for all other councillors	7,569,156
TOTAL	13,112,145

11. ADJUSTMENT TO CAPITAL EXPENDITURE

11.1. Capital Expenditure Funded from Conditional Grants and Own sources

See Table B5 Adjustment Budgets Capital Expenditure Budget by vote and funding (Supporting Tables)

12. OTHER SUPPORTING DOCUMENTATION

12.1. Compliance to Municipal Finance Management Act (MFMA)

The MFMA came to effect on 01 July 2004. This legislation provides for significant changes in the way municipalities in South Africa manage their financial affairs. The legislation not only deals with financial management issues but also deals with general management issues.

While the official date for the legislation was July 1, 2004 and the implementation was supposed to have been phased in up to a maximum of five years. This was a result of the fact that the changes required are significant and far-reaching. MFMA implementation is still a challenge for the municipality. The municipality requires time to make the necessary changes and ensure that employees understand and are trained in the required changes

In terms of implementation, the municipality has been classified as a high capacity municipality. The Municipality has since made significant progress in the implementation of the MFMA. The municipality has an operational Budget and Treasury Office that is not fully staffed.

13. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

QUALITY CERTIFICATE

I **GH Akharwaray**, municipal manager of **Sol Plaatje Municipality**, hereby certify that the adjustment budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under that Act, and that the adjustment budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Signature:

GH Akharwaray

Municipal Manager of Sol Plaatje Municipality NC091

Date: 25 February 2011