

**ITEM A2697**  
**ADJUSTMENTS BUDGET 2013 - 2014**  
**(O / MM / AA6 / FINANCE / REPORTS 2013/ 48-13)**  
**(MC 25-06-2013)**

**PURPOSE**

The purpose of this report is to present the adjustments budget for the 2013-2014 financial year to Council for approval in terms of section 28 of the Municipal Finance Management Act.

**BACKGROUND**

In terms of section 28 of the MFMA.

“(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.”

**DISCUSSION**

In its sitting dated 30 May 2013, the Emfuleni Local Municipality approved the annual budget of R4, 522, 526, 526 to be effected during the 2013/2014 financial year. The stated budget consisted of the operational budget amounting to R4, 196, 422, 737 and the capital budget amounting to R326, 103, 789.

Also within the referred municipal council sitting, under item no A 2654-**RESTRUCTURING AND LIQUIDATION OF THE OVER 90 DAYS DEBTORS BOOK - APPOINTMENT OF BIZWORKS (PROPRIETARY) LIMITED AND OTTALINE (PROPRIETARY) LIMITED AND ALL MATTERS INCIDENTAL THERETO**, council approved that;

1. *Council notes the effecting by the Accounting Officer of his mandate by Council to “solicit, negotiate and conclude offers that will enable the Municipality to favourably liquidate its debtors book” and in this regard approve:*

1.1 *the appointment of Bizworks Ottaline Joint Venture as the preferred and potential service provider; and*

- 1.2 *the signature of an agreement with the Bizworks Ottaline Joint Venture on the salient financial and contractual provisions which are currently being finalised between the Bizworks Ottaline Joint Venture and Emfuleni;*
2. *Council notes the imminent successful conclusion of the process of liquidating the over 90 (ninety) days debtors book;*
3. *Council condones the appointment by the Accounting Officer of NAIS and Ashira to the Municipality for their services in respect of this transaction;*
4. *on completion of the transaction and the signing of a valid and binding Agreement with the Bizworks Ottaline Joint Venture, Council mandate and authorise the Accounting Officer to:*
  - 4.1 *Submit an adjustment budget, including expenditure allocations;*
  - 4.2 *allocate and ring fence (i) 5% of all proceeds from the debt collection income for the purposes of revenue enhancement processes, including the setting up of the Revenue Management Agency (ii) R4 000 000 (four million rand) for the Logistics Hub and (iii) R3 000 000 (three million rand) for the Municipal Small Capital Allowance;*
  - 4.3 *Council authorise the payment of the R2 000 000 (two million rand) termination fees to Aloe Cap in terms of their contract;*
  - 4.4 *Council authorise the payment of 1% success fee which equates R2 400 000 (two million four hundred thousand rand) to Ashira; and*
5. *enter into and sign any additional contracts which are incidental to the operationalisation of the current Agreement with the Bizworks Ottaline Joint Venture.*

The adjustment budget is informed by the conclusion of the referred contract, for the restructuring of the non performing portion of the debtor's book and the re- alignment of MIG program.

The summary of the key adjustments can be highlighted as follows:

- Repairs and maintenance of road infrastructure
  - additional provision of R6 million for road patching, and
  - purchasing of asphalt amounting to R 4 million.
- Office accommodation and tools of trade
  - Office extensions and renovations amounting to R 9 million, addressing Occupational Health and Safety challenges.
  - Furniture, fittings and equipments amounting to **R 3, 1 million**
  - Software upgrade, GIS for R 500 000
- A provision of R 4 million for the establishment of logistical hub, R 3 million for the establishment of By-law enforcement and Revenue Agency provision of R 12 million.
- A provision of R2 million for the organizational review, R 1.5 million for upgrade of achieves and record keeping, and R 2 million for upgrade and installation of telephony system.
- A provision of R 2 million for cancellation of "Aloe Cap contract" and a further **R 2, 4 million** for management fees in regard of advisory and administrating the new contract.

## Capital Projects

Council resolved on the 04<sup>th</sup> of September 2012 to have for more flexibility on the MIG capital programme as per section 19(3) of the MFMA. This was a critical resolution to allow for 100% expenditure on MIG. On the past approved budget an error occur that resulted in this resolution being over looked and project were approved as a project list as oppose to programmes. On the list of resolution from that the report resolution 3 and 4 are still relevant and are critical for the implementation of the capital programmes. This report also seeks to address this error from the approved budget.

Below are resolutions from Item A2566: **REALIGNMENT OF READY IMPLEMENTABLE PROJECTS FOR THE MIG BUDGET**, whereby council resolved that:

1. Council take note of the content of the report regarding the realignment of ready implementable projects for the MIG Budget;
2. Council rescind the original capital list resolution of 29 May 2012 focusing on MIG;
3. Council approve the MIG capital list as a consolidated capital programme (MIG) as per MFMA 19(3); and
4. the Mayoral Committee be delegated to manage any changes in the capital list.

## Income and expenditure

The proceeds from debtors book restructuring affect the recoverability of debt, collectable within the reporting period, as such no additional income will be realised. The proceeds for the contract amount to R 240 million, with R 20 million of the contract amount being retained by the Service provider, for set-up costs, while the anticipated proceeds transferable in three tranches during the 2013/14 financial year.

The increases and (decreases) are detailed below.

<b><u>Item</u></b>	<b><u>Cluster</u></b>	<b><u>Amount</u></b>
<b>Operating Income</b>		
Reduction in the Provision of Bad debts	Revenue	-220,000,000
<b>Capital Expenditure</b>		
Office building (Extensions)	IPAM	6,000,000
Minor Capital-furniture, fittings & computer hardware	Finance	3,100,000
<b>Operational Expenditure</b>		
Repairs and Maintenance-Office refurbishment	IPAM	3,000,000
Repairs and Maintenance-Road patching	BS	6,000,000
Tools and Maintenance-Asphalt	BS	4,000,000
Logistical Hub	EDP & H	4,000,000
Archives and record keeping	CS	1,500,000
Telephony system	CS	2,000,000
Organizational review	CS	2,000,000
By-Law enforcement establishment	PS & CD	3,000,000

<b><i>Item</i></b>	<b><i>Cluster</i></b>	<b><i>Amount</i></b>
Management Fees-Contract facilitation and advisory	Revenue	2,400,000
Management fees-Contract cancellation	Revenue	2,000,000
Revenue Agency operations	Revenue	12,000,000
Software upgrade-GIS	EDP & H	500,000
<b>TOTAL (anticipated surplus)</b>		<b>-168,500,000</b>

The anticipated cash-surplus will be utilised to address the existing cash flow difficulties being experienced by the municipality.

### **RECOMMENDED THAT**

1. Council note the report on the adjustment budget;
2. Council approve the adjustment budget for 2013/14 financial year of R4, 522, 526, 526, consisting of Operational Budget of R4, 018, 822, 737 and Capital Budget of R335, 203, 789, realising an operating surplus of R168, 500, 000 as contained in the tables B1 to B10 attached to the report as **Annexure (pages 1002 - 1010)** as follows:
  - Table B1 – Adjustments Budget Summary
  - Table B2 – Adjustments Budget Financial Performance (Revenue and Expenditure by standard classification)
  - Table B3 - Adjustments Budget Financial Performance (Revenue and Expenditure by municipal vote)
  - Table B4 - Adjustments Budget Financial Performance (Revenue and Expenditure)
  - Table B5 – Adjustments Capital Expenditure by Vote, Standard classification and Funding
  - Table B6 – Adjustments Budget Financial Position
  - Table B7 – Adjustments Budget Cash Flow
  - Table B8 – Cash backed reserves/Accumulated surplus reconciliation
  - Table B9 – Asset Management
  - Table B10 – Basic service delivery measurement
3. Council also note that there are no amendments to be made to the budget-related policies as a result of this adjustments budget 2013 / 2014;
4. the spending of the adjusted cost items be subjected to realization / receipt of the proceeds from the restructuring of the debtors book;
5. Council approve the MIG capital list, for 2013/14 financial year, as a consolidated capital programme (MIG) as per MFMA 19(3); and
6. the Mayoral Committee be delegated to manage any changes in the capital list.