

2013-2014 ADJUSTMENT BUDGET REPORT



31 JANUARY 2014

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PROPOSED 2013/2014 ADJUSTMENTS BUDGET

1. PURPOSE OF THE REPORT

To seek approval from the Council on the adjustments proposed to the 2013/2014 Original Operational and Capital Budget.

To set out the options available to W.L.M to fund the adjusted capital budget and to improve the municipality's cash flow position.

2. LEGISLATIVE BACKGROUND

2.1 Section 28 of the Municipal Finance Management Act, 2003 (MFMA) allows a municipality to revise its approved annual budget through an adjustment budget.

An adjustment budget –

1. Must adjust the revenue and expenditure estimates downwards if there is a material under – collection of revenue during current year.
2. May appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for.
3. May, within a prescribed framework, authorized unforeseeable and unavoidable expenditure recommended by the mayor of the municipality.
4. May authorize the utilization of projected savings in one vote towards spending under another vote.
5. May authorize the spending of funds that were unspent at the end of the past financial year where the under – spending could not reasonable have beenforeseen at the time to include projected roll-overs where the annualbudget for the current year was approved by the council
6. May correct any errors in the annual budget, and
7. May provide for any other expenditure within a prescribed framework.

2.2 Only the Mayor may table an adjustments budget in the municipal council. Whenan adjustments budget is so tabled it must be accompanied by-

1. An explanation of how the adjustments budget affects the annual budget;
2. A motivation of any material changes to the annual budget;
3. An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years;
4. Any other supporting documentation that may be prescribed.

3. EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality will continue with its revenue enhancement project on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Westonaria Local Municipality will implement various customer care initiatives and develop incentives to encourage debtors owing more than 90 days to ensure collection of the revenue due to the municipality.

The main challenges experienced during the compilation of the 2013/2014 Adjustment Budget can be summarized as follows:

- The need to reprioritize projects and high expenditure rate within the existing 2013/2014 Budget Adjustment resource envelope given the cash flow realities and declining cash position of the municipality;
- The on-going growing of debt book of the municipality ;
- Aging, inadequate and limited resources for maintenance of water, sanitation, roads and electricity infrastructure;
- The increased cost of bulk water and electricity is due to increases in water and electricity losses, which is placing upward pressure on service tariffs for residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no longer be affordable;
- Affordability of capital own funded capital projects – original allocations had to be reduced during the current year's adjustment budget and needed to be factored into the next financial year (2014/2015) process which will be still a challenge.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 Adjustment budget:

Table 1 Consolidated Overview of the 2013/14 Adjustment Budget

	Original Budget 2013/2014	Proposed Adjustment Budget 2013/2014
Total Operating Revenue excluding capital transfers	445,994,000	368,862,000
Total Operating Expenditure	452,073,000	445,991,000
Surplus / Deficit before Capital Contribution	(6,079,000)	(77,129,000)
Total Capital Expenditure	82,594,000	77,793,000

Total operating revenue has declined by 17 per cent or R77.1 million for the 2013/14 adjustment budget when compared to the 2013/14 original budget.

Total operating expenditure for the 2013/14 Adjustment Budget has been appropriated at R445 million and **translates into an operating budgeted deficit of R77 million. This operating deficit is a non-cash deficit due to depreciation of about R62.5 million and provision for bad debts of R 20 million.** MFMA Circular no.55 states that “there is no legal requirement that the operating budget (i.e. the Financial Performance Budget as reflected in **Tables B2, B3 and B4**) of a municipality must be balanced or be in surplus”). Furthermore MFMA Circular no.67 of the 2013/2014 Budget preparation states that, in preparation for 2013/2014 budget municipalities that have chosen the ‘revaluation model’ when implementing GRAP 17 must exclude the depreciation resulting from the revaluation of PPE when preparing their budgets and calculating any tariff increases. Westonaria Local Municipality when implementing GRAP 17 have used the cost model.

Section 18 of the MFMA requires that the budget must be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years’ surplus not committed and borrowed funds but only for capital projects. **Tables B7 and Table B8** provide the information required to evaluate whether Westonaria Local Municipality’s operating and capital budgets are funded or not.

Table B7 Adjusted Budgeted Cash Flow shows how the operations are expected to impact on its cash position. If a municipality’s cash position at year end is **negative** it is a strong indication that the overall budget is not funded. The cash position for Westonaria Local Municipality’s cash position at year end **predicts a surplus of R823k.**

Table B8 Cash Backed reserves/ accumulated surplus reconciliation shows whether the municipality has “cash-backed accumulated funds from previous years’ surpluses not committed for other purposes’ that can be used to fund a deficit on the Financial Performance Budget or to fund ‘internally generated funds’ on the Capital Budget.

The adjusted capital budget of R77.8 million for 2013/14 is 6 per cent lesser when compared to the Original Budget. **The decrease is due to financial constraint experienced by the municipality currently, thus a decision was taken that all own funded capital budget projects** be adjusted except trading services projects and projects already committed or spent. Only R 3 million from operating revenue will be used to fund capital budget. Own funding contributes 4 per cent of adjusted capital expenditure, when government grants and transfers are included.

Operating Revenue Framework

For Westonaria Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times, strong revenue management and stringent expenditure management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs, growing debt book, over commitments in terms of expenditure and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices had to be made in reducing some line items and balancing expenditures against realistically anticipated revenues.

Chart 1: Adjusted Main operational revenue categories

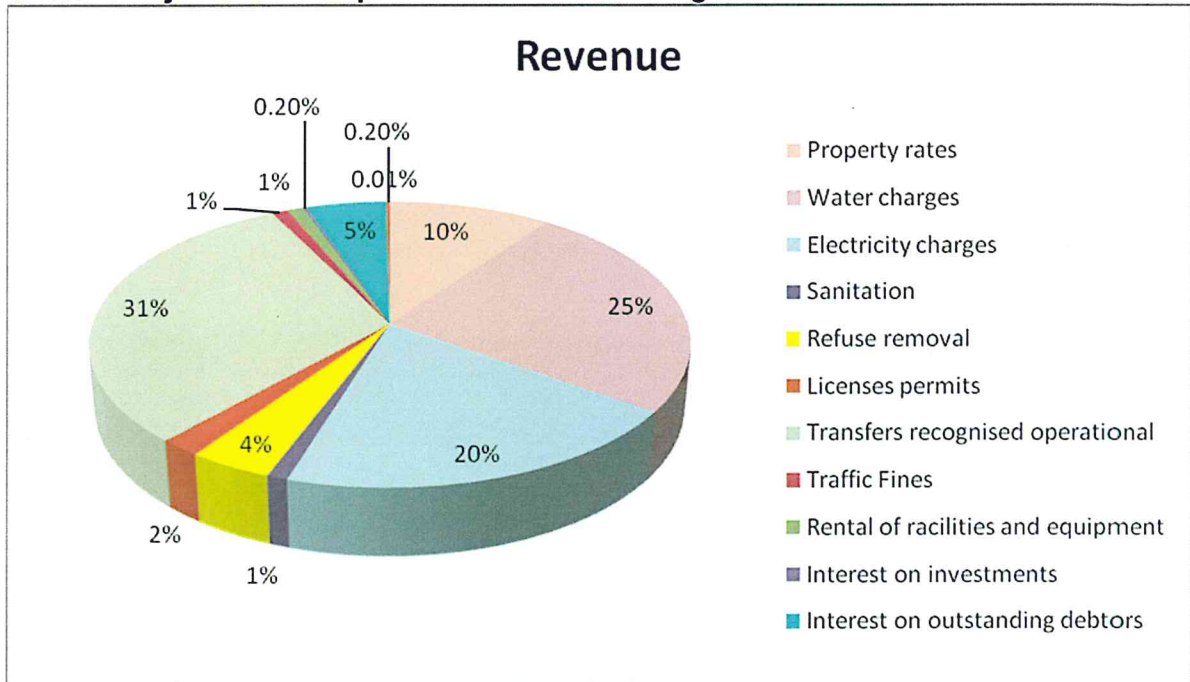
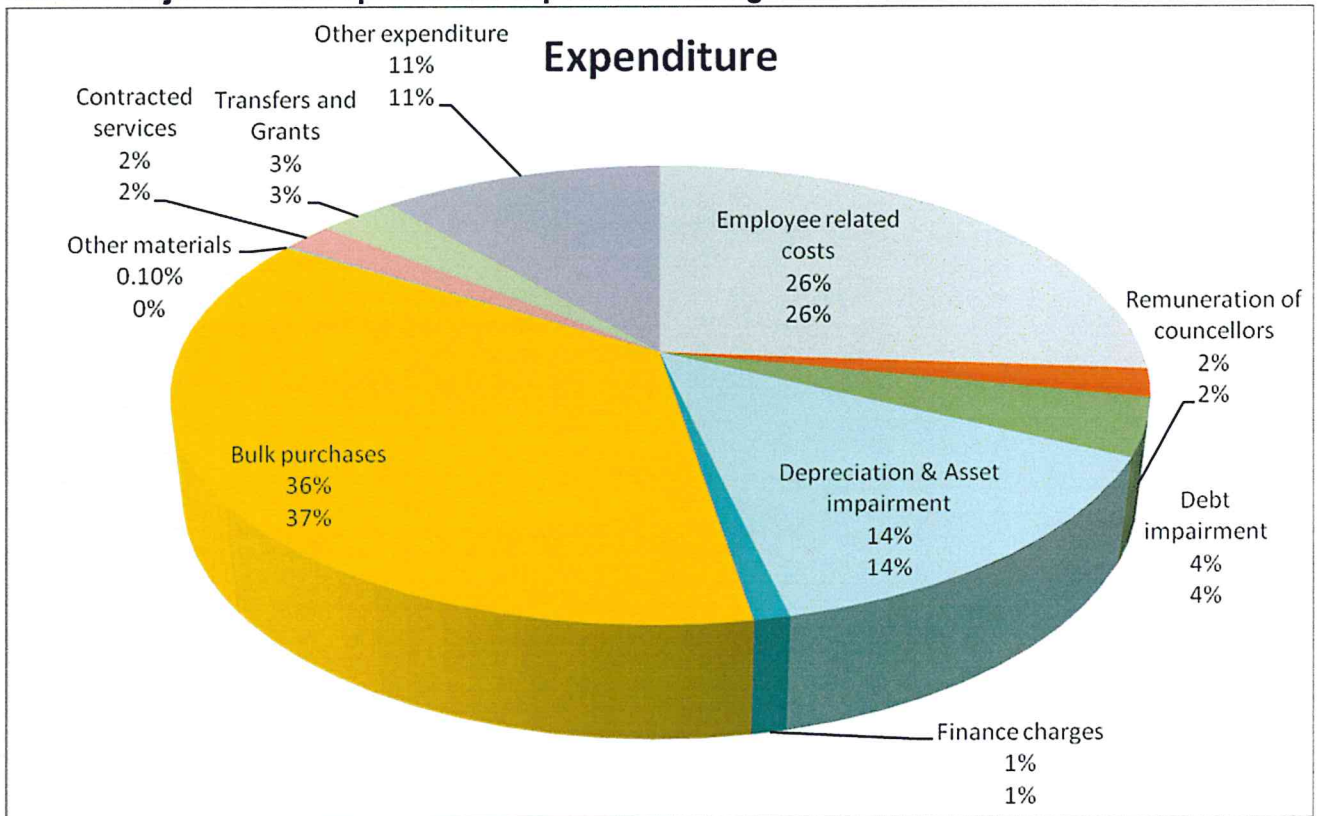


Chart 2: Adjusted main operational expenditure categories

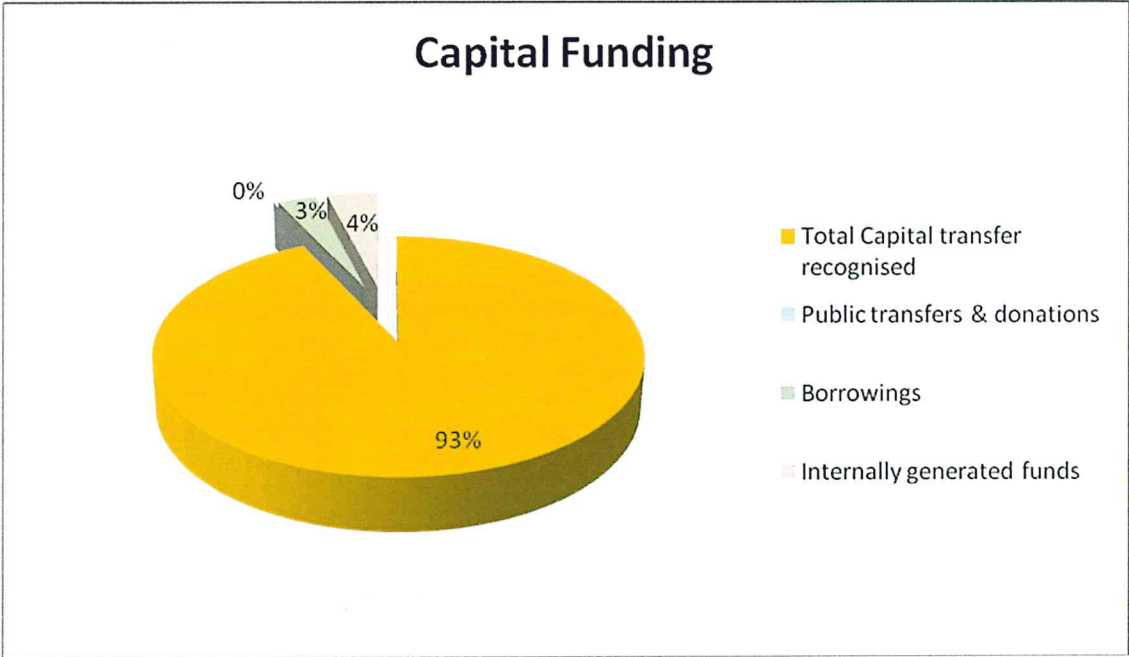


Included in other expenditure is the following:

Table 2

Other Expenditure	Adjusted Budget
Repairs and maintenance	R 11,371,000
Consultant Fees	R 4,068,000
Audit Fees	R 3,287,000
General Expenses	R 31,592,000
Total	R 50,322,000

Chart 3: Adjusted Capital Funding



4. PROPOSED ADJUSTMENT BUDGET

Table 3 Major movements

Component	Movement	Value
Revenue (excluding capital grants transfers)	Decreased	(R 77,131,000)
Employee related costs	Decreased	(R 21,219,000)
Transfer to and from Provisions	Increased	R 74,000,000
Bulk Purchases	Decrease	(R 21,800,000)
Other Expenditure	Decrease	(R 37,595,000)
Transfers and grants	Increased	R12,000,000

It is proposed that total revenue be adjusted from R 445,994,000 (excluding capital transfer) to R 368,863,000 and total expenditure be adjusted from R 452,073,000 to R 445,992,000 to accommodate expenditure that were initially underprovided or excluded from the original budget, depreciation which is a non-cash item and an anticipated increase in expenditure on some of the line items and constantly growing debt book.

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

4.1 REVENUE ADJUSTMENTS

Table 4 Revenue adjustments per department

Department	Original budget	Adjustments	Adjustment budget
Council General	R 74,923,000	0	R74,923,000
Municipal Manager's Office	0	0	0
Corporate services	R 125,000	0	R125,000
Financial services	R 57,924,000	R 6,952,000	R 64, 876,000
Community services	R 30,075,000	R2,323,000	R 32, 380,000
Infrastructure services	R 282,965,000	(R 86,405,000)	R 196,560,000
Total	R 445,994,000	(R 77,130,000)	R 368,864,000

Revenue adjustments per item

Component	Movement	Value
Original budgets		R 445,994,000
Property Rates	Constant	R 0
Service charges – Electricity	Decreased	(R 29,444,000)
Service charges – Water	Decreased	(R 38,731,000)
Service charges – Sanitation	Decreased	(R 18,230,000)
Service charges - Refuse	Increased	R 8,978,000
Rental facilities and equipment	Decreased	(R41,000)
Fines	Increased	R 210,000
License and permits	Increased	R 128,000
Other revenue	Decreased	(R 1,000)
Total Adjustment Budget		R 368,863,000

1. Service charges – Electricity

Electricity revenue was adjusted downward from total of R 103,259,000 inclusive of prepaid electricity to R 73,815,000 based on our collection rate of 80%, this adjustment only represents 29% of this revenue category. The Municipality will implement revenue enhancement vigorously to recover outstanding debts.

2. Service charges – Water

Water revenue decreased from R130,085,000 to R 91,355,000 inclusive of prepaid water based on the predictions; not ignoring the consideration that we are currently on the peak of the high demand season for water, which is expected to subside soon. Westonaria Local Municipality has put together a strategy to mitigate the water losses to acceptable levels.

3. Service charge - Sanitation

Sanitation revenue was increased by R 18,230,000 based on the predictions of the Management.

4. Service charge - Refuse

Refuse removal revenue was increased by R 8,978,000. This is due to the fact that waste department must reach a break-even point in order to fund its own departmental expenditure.

5. Rental of facilities and equipment

Rental of facilities and equipment was reduced by R41, 000 or 2%. The original budgeted income was based on the audited actual of 2011/12 financial year, as per GRAP 13 lease revenue from operating leases shall be recognized as revenue on a straight-line basis over the lease term.

6. Traffic Fines

Traffic Fines were increased by R 210,000 based on the 6 months performance of the budget period to December 2013.

7. Licenses and permits

Licenses and permits were increased by R 128,000, based on the 6 months performance of the budget period to December 2013.

4.2 Operating Expenditure

Expenditure adjustments per department

Department	Original budget	Adjustments	Adjustment budget
Council General	R 46,630,000	(R 17,551,000)	R 29,079,000
Municipal Manager's Office	R 7,457,000	R 903,000	R 8,360,000
Corporate services	R 43,661,000	(R 1,778,000)	R 32,882,000
Financial services	R 31,911,000	R 8,489,000	R 40,400,000
Community services	R 71,127,000	(R 1,914,000)	R 69,213,000
Infrastructure services	R 260,287,000	R 5,770,000	R 266,057,000
Total Expenditure adjustment	R 452,073,000	(R 6,081,000)	R 445,991,000

Expenditure adjustment per item

Component	Movement	Value
Original budget		R 452,073,000
Employee related costs	Decreased	(R 21,219,000)
Remuneration of councillors	Decreased	(R 831,000)
Debt impairment	Increased	R 20,000,000
Depreciation and asset impairment	Increased	R 54,000,000
Finance charges	Decreased	(R 7,300,000)
Bulk purchases	Decreased	(R 21,800,000)
Other material	Decreased	(R 336,000)
Contracted services	Decreased	(R3,001,000)
Transfers and grants	Increased	R 12,000,000
Other expenditure	Decreased	(R 37,595,000)
Total Expenditure Adjustment		R445,991,000

1. Employee Related Costs

Employee related costs decreased by R 21,219,000 mainly due to moratorium on all vacant posts.

2. Debt impairment and finance charges

Debt impairment increased by R20 million due to under collection of revenue as we collect from 21% of billed customers. Finance charges have decreased by R 7.3 million due to decrease in borrowings.

3. Depreciation

Depreciation shows an increase of R54 million, due to implementation of GRAP 17 which increases the depreciation and asset impairment that is not fully accommodated in the municipality's tariffs and as a result drives the operating budget into deficit.

4. Bulk Purchases

Bulk purchases were decreased by R21.8 million based on the performance of the past six months and predictions from Electricity Distribution unit. Westonaria Local Municipality has put together a strategy to mitigate the water losses to acceptable levels.

5. Contracted Services

Included in contracted services is the following:

- ❖ Security services
- ❖ Internal audit
- ❖ TMT speed fines
- ❖ Post office
- ❖ Protea Coin
- ❖ UMS

Contracted services has decreased by R3 million as the Municipality is planning to re-negotiate the contracts with its contracted services to eliminate certain costs.

6. Transfers and grants

Transfers and grants have increased by R 12 million due to free basic services on water and electricity which were not initially budgeted for.

7. Other Expenditures

Included in other expenditure is the following:

- Repairs and maintenance
- Consultancy fees
- Audit Fees
- General expenses

Consultant fees have decreased by R 2 million as the Municipality is planning to re-negotiate the contracts with its consultants. General expenditure has decreased by R 35 million due to the performance for the past six months.

5. Capital Expenditure

Component	Movement	Proposed Adjustment	2012/13 Roll overs	Total Proposed
Original budget			0	R 82,594,000
Administration	Decreased	(R 1,150,000)	0	(R 1,150,000)
Financial planning	Decreased	(R 285,000)	0	(R 285,000)
Revenue, Credit control and Debt collection	Decreased	(R 1,500,000)	0	(R 1,500,000)
Local Economic development	Decreased	(R 560,000)	0	(R 560,000)
Parks	Decreased	(R 200,000)	0	(R 200,000)
Sports and recreation	Decreased	(R 7,420,000)	0	(R 7,420,000)
Traffic services	Decreased	(R 144,000)	0	(R 144,000)
Waste management and cemetery	Decreased	(R 1,060,000)	0	(R 1,060,000)
Environmental health and Social development	Increased	R 630,000	0	R 630,000
Road and Stormwater	Increased	R 8,816,000	0	R 8,816,000
Sanitation	Decreased	(R 16,838,000)	0	(R 16,838,000)
Electrical services	Increased	R 325,000	0	R 325,000
Water services	Decreased	(R 255,000)	0	(R 255,000)
Adjusted Capital Budget			0	R 77,793,000

The above projects are funded by government allocations, borrowings and internal generated funds. Majority of internal funded projects were decrease due to the fact that the municipality is currently facing a financial crisis and cannot be able to meet all its current obligations. As a result some of the internally funded projects were suspended.

Source of funding	Original Budget	Adjustment	Adjustment budget
Government allocation	R 72,482,000	R 195,451	R 72,677,451
Borrowings	R 2,307,000	R 0	R 2,307,000
Internal generated funds	R 7,805,000	(R 4,996,451)	R 2,808,549
Total	R 82,594,000	(R 4,801,000)	R 77,793,000

6. Cash flow

Projected cash flow is attached (as table B7) and suggests the projected cash flow positive balance of R823k at year end.

7. Recommendation to Council

- That the operational expenditure budget be adjusted from R 452,073,000 to R 445,992,000.
- That the revenue budget be adjusted from R 445,994,000 to R 368,863,000 including capital transfers and contributions as attached in **B Schedule**.
- That the capital budget be adjusted from R 82,594,000 to R 77,793,000 as attached in **B Schedule**.
- To implement and monitor the cash flow turnaround strategy to improve effective financial management.
- To monitor collection levels during the remaining budget period to ensure that funding is available to finance expenditure.
- That under no circumstances should expenditure be incurred that is not budgeted for.


MUNICIPAL MANAGER

24/1/14
DATE


EXECUTIVE MAYOR

24/01/2014
DATE