

REPORT ON THE ADJUSTMENTS TO THE 2013/2014 BUDGET

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PURPOSE

To seek Council's approval for adjustments to the 2013/14 budget including:

- a) The new allocation from prior year income to fund projects of R1 190 416 linked to the Mandela Project
- b) The re-allocation of unspent internally funded projects of R 53 709 117 to departments
- c) The rollover of unspent funds on Municipal Infrastructure Grant (MIG) of R12 166 286
- d) The rollover of unspent fund on the Financial Management Grant (FMG) of R389 077
- e) The rollover of unspent funds on the Municipal Systems Improvement Grant (MSIG) of R119 226
- f) The rollover of unspent funds on the Expanded Public Work Programme Grant (EPWP) of R 8 467 273
- g) The transfer of Post Retirement Benefits, Longs Service Awards, Pension and Medical Aid for pensioners from Legislative Support Services vote to Corporate Services vote, amounting to R37 478 747 as well as reclassifying R12 650 000 as Interest on Defined Benefits Obligations
- h) Transfer of specific staff from Corporate Services Vote to Legislative and Executive Support Services Vote with associated salary costs of R2 535 661
- i) Increase in the Depreciation budget by R40 000 000
- j) Increase in the Provision for Bad Debts Budget by R70 000 000
- k) Increase in the salary, wages and social contributions budget of Health & Protection Services of R5 600 000
- l) Transfer of R10 000 000 funding from general expenses under Strategic Management 154017594100 to Salary Budget to fund all new posts proposed and filled in 2013/14

- m) Reduction in the 2013/14 Regional Bulk Infrastructure Grant (RBIG) by R21 434 000
- n) Reclassification of Software Budget from General Expense to Capital of R1 100 000
- o) Transfer of entire remaining Vehicle Capital Budget to cover the costs of the Essential Car User Scheme Subsidy under Salary Costs (105 073) and Reimbursive costs for Essential User Costs (175 073) under General Expenses, and the balance to be allocated to projects
- p) Transfer of R700 000 from BTO vehicle budget to general expenses for the Competency Centre
- q) New allocation to ADM for Rural Households Infrastructure Grant R8 500 000 for 2013/14, R9 000 000 and R8 328 000 for 2014/5 and 2015/16 years respectively
- r) Transfer of entire Financial Management Grant Budget (FMG) from 25 10 structure to 98 structure, including R51 000 Capital in line with reporting requirements of the Auditor General
- s) Removal of income of R6 500 000 under 35 65 255 027 00 as per reporting requirements of the Auditor General
- t) Reclassifying Rural Roads Asset Management Grant as operating grant in the amount of R2 347 000
- u) Transfer of the internally funded project allocation of R89.4 million from the Strategic Management Department to the Municipal Management Department

AUTHORITY

- The Municipal Finance Management Act, 56 of 2003 (MFMA), section 28 1-5 and section 30
- Municipal Budget and Reporting Regulations 2009 (MBRR), part 4

LEGAL/STATUTORY REQUIREMENTS

28. (1) A municipality may revise an approved annual budget through an adjustment
- (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.

Section 30 of the Municipal Finance Management Act defines unspent funds as:

“the appropriation of funds in an annual or adjustments budget lapses to the extent that those funds are unspent at the end of the financial year to which the budget relates, except in the case of an appropriation for expenditure made for a period longer than that financial year”, MFMA – section 30.”

Part 4 section 23 of the MBRR deals with the timeframes for tabling of adjustments budgets:

23. (1) An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.

BACKGROUND/REASONING

This approval of adjustments to the 2013/14 budget in line with legislation is a means of preventing unauthorised expenditure and audit findings which may adversely impact the audit outcome.

Internally Funded Projects

- a) After the passing of former president, Nelson Mandela, ADM undertook to identify savings in order to contribute to the commemoration of Mandela. Unutilised Prior year income which had arisen from VAT on the Regional Bulk Infrastructure Grant was identified as a source, and an amount of R1 190 416 was earmarked for these Mandela projects. This funding was allocated to departments for Special Programs – Community Initiatives. See attached **Annexure A** for summary on allocation and expenditure and balance remaining, as well as **Annexure B** showing detailed expenditure per project per department. The initial amount was allocated to four different departments as per below.

Legislative Executive Support Services	05	204 000
Strategic Management	15	186 416
Corporate Services	20	80 000
Budget & Treasury	25	720 000
TOTAL:		R1 190 416

- b) During the 2012/2013 financial year, ADM approved internally funded programs in the form of projects. Funds were allocated to each project according to the Integrated Development Plan (IDP) and the Service Delivery and Budget Implementation Plan (SDBIP). At the end of the financial year, all unspent funds were withdrawn from the projects and allocated to a savings pool. Departments were then given the opportunity to re-apply for funding from this pool in the new financial year. See attached **Annexure C** for breakdown of the individual projects that total R53 709 117. The allocation per departments is as per below:

Legislative Support Services	05	7 224 157
Strategic Management	15	3 553 175
Corporate Services	20	450 000
Budget & Treasury	25	3 731 498
Engineering	35	19 638 862
Community Services	40	2 438 837
Water & Sanitation	45	10 141 032
Land Human Settlement & Economic Development	50	5 404 164
Municipal Management	55	1 127 392
TOTAL:		R53 709 117

Externally Funded Projects (Refer Annexure D to J for detailed applications)

- c) At the end of the financial year, an amount of R12 166 286 was unspent on the Municipal Infrastructure Grant. Council approval is now being sought to add these unspent funds to the 2013/14 budget. Refer to **Annexure I** for approval in principal of application to roll over MIG unspent funds
- d) Likewise, the rollover of unspent funds on the Financial Management Grant of R389 077 requires approval by Council; refer **Annexure E** for copy of application to NT and **Annexure I** for approval by NT.
- e) The rollover of unspent funds on the Municipal Systems Improvement Grant of R119 226 as detailed in **Annexure F**. Approval of this by NT is still awaited; refer emails contained in **Annexure J**.
- f) The rollover of unspent funds on the Expanded Public Work Programme Grant of

R 8 467 273, refer to **Annexure G** for application for roll over.

MFMA Circular No 67 attached as **Annexure H** gives guidance on the process to apply for rollovers of unspent funds. ADM has to apply to NT for rollovers by 31 August of each year. At the time of application for rollover, the exact amount may not yet be known, and an estimate amount is submitted to NT for approval in principle. The figures therefore in the application letters often do not tie up to the actual roll over amount, which is the accurate reflection of the final unspent amount at year end that needs Council's approval. The first response to applications for rollover is normally received in November. However the process does not end there, as there are normally discrepancies and further communications needed, for example the application for rollover of EPWP was done on 27 August 2013, yet treasury initially indicated that no roll over application was received. As at today, the roll over applications for MIG and FMG has been received, refer **Annexure I**. However, as per email correspondence attached as **Annexure J**, NT has not as yet finalized ADM's full roll over applications and have promised to issue a new revised roll over letter, taking into account all roll over applications. The need for roll over applications is a result of not spending full allocations in the given financial year. Better planning and monitoring of spending will reduce the need for roll over applications.

Shifting between votes and reclassification of interest portion

- g) The costs associated with pensioners, including medical aid and pension costs, as well as post retirement awards and long service awards had historically been allocated to Council General cost centre, which falls under the Legislative and Executive Support Services (LESS) vote, the department has negotiated with the Municipal Manager to move this obligation to the Human Resources cost centre, under the Corporate Services vote, (CS), being the department responsible for all remuneration of staff. Thus the budget of R37 478 747 to be reclassified. This is made up of:

Agency Services: Pension Costs	105 050
Agency Services: Medical Aid Costs	1 689 084
ADM Pensioners: Medical Aid Costs	1 784 613
Post Retirement Benefits Defined Benefit obligation	32 000 000

Long Service Benefits	1 900 000
TOTAL:	37 478 747

A portion of the defined benefit obligation, which is determined by an annual actuarial valuation, is classified as Interest, and therefore needs to be separated from the actual obligation. An amount of R12 650 000 from the total budget amount mentioned above needs to be reclassified from other employee costs to interest costs.

- h) Certain staff members functions were also identified to be more aligned with LESS than with CS and the identified staff have thus been moved. This results in a reclassification of R2 535 661. Refer to the list below, detailing the staff involved.

Luleka Tom	Fundiswa Manyifolo
Andile Bovu	Lusanda Solundwana
Pakama Mnapu	Mandisi Ngxekana
Sina Mbutuma	Nozipho Nano
Nokuthula Makalima	Siyanda Jack
Dudzile Mgolombane	Pamela Mgoduka

Depreciation and Provision for Bad Debts

- i) During the finalisation of the asset register in the 2012/13 financial year, infrastructure assets were revalued and identified, resulting in an increased depreciation requirement for the year. As the 2013/14 budget was based on the budget for 2012/13, and not on the actuals, the need has become glaringly apparent for an upward adjustment in the depreciation levels provided in 2013/14, to avoid unauthorised expenditure. The 2012/13 actual depreciation, plus a calculation for the assets intended to be purchased in 2013/14 as well as an estimation of new completed infrastructure assets was utilised to calculate the depreciation requirements. This calculation has resulted in a need to increase the budget by R40 000 000. As this is a non cash flow item, funding for this additional R40 000 000 will be sourced from reserves.
- j) Likewise, the need to increase the provision for bad debts has also arisen following the 2012/13 outcomes. The bad debt provision requirement for 2013/14 was

recalculated in January 2014, taking into account the growth in the debt book of 4% each month, and the year end cut off requirements highlighted in 2012/13. This analysis highlighted the fact that the current debt book is at a level of R435 million, with a collection rate at an average of 40%. The domestic consumer category comprises 74% of the total outstanding debt, with the majority of this debt, 76%, being in the 90 plus days aging. The result of this exercise sees a need to increase the existing provision by R70 000 000, also being a no cash flow item, to be funded from reserves.

- k) An analysis of the salaries wages and social contribution of the budget of Community Services at the end of December highlighted the fact the salary budget for this vote has been underestimated. Chief contributors to this being overtime and travel allowances. Taking into account the current trends, the department will require an additional R5.6 million rand to sustain its current expenditure levels.

New post funding

- l) In the 2013/14 budget process, an amount of R10 million was allocated as a project to cover any new staffing requirements of the institution under the Strategic Management vote. To date, General Manager posts have been identified as a core requirement, and the transfer of this funding from General Expenses to Salaries is required. Three of these posts have already been filled. This bulk funding also to be moved from Strategic Management vote to the Municipal Manager's vote and then to the relevant departments as the posts are filled.

Reduction in the allocation for the RBIG

- m) ADM received notification via Government Gazette 37203 of the reduction in the allocation of RBIG by R21 434 000, from a level of R56 504 000 to R35 070 000, therefore requiring a downward adjustment in this grant income and expenditure.

Reclassification of Expenditure Items

- n) In the original budget of 2013/14, Software Expenditure was classified as a general expense, however, in terms of asset recognition and capitalisation, Software is classified as an asset and needs to be reflected as such. A total of R1.1 million needs to be reclassified from general expenses to capital. R600 000 under Information Technology (1545), R500 000 under Building and Services.
- o) With the approval of the essential car user subsidy scheme, and amount of R31 332 593 is proposed to be transferred from departments Vehicle Capital Budget to cover the costs of the Essential Car User Scheme Subsidy under Salary Costs (105 073) and Re-imbursive costs for Essential User Costs (175 073) and project applications. The shortfall in the project applications will be sourced within the pool of project funds which have not yet been allocated, requiring departments to re-prioritize projects.

DEPT	VEHICLE BUDGET TO BE RE- ALLOCATED	TRAVEL ALLOWANCE	ESSENTIAL CAR USER SCHEME	PROJECTS
LESS	0	228 680	704 664	11 082 520
STRAT	281 000	343 020	813 136	8 270 000
CORPORATE SERVICES	1 660 000	457 360	726 112	0
BTO	450 000	457 360	189 072	0
ENGINEERING	27 500 000	1 029 060	6 611 408	8 171 796
COMMUNITY SERVICES	741 593	343 020	2 925 632	0
LHSED	700 000	114 340	0	12 388 292
MM	0	114 340	1 632 424	950 000
TOTAL	31 332 593	3 087 180	13 602 488	41 312 608

PROJECT NAME	AMOUNT	DEPARTMENT
Mayor's Cup	482 520	LESS
Public Participation	600 000	LESS

Mandela Legacy	5 000 000	LESS
Special Projects	5 000 000	LESS
Cables New Offices	4 080 000	STRAT
MS License Fees	2 940 000	STRAT
Communication strategy	950 000	STRAT
Marketing/Communication	750 000	STRAT
Icwili phase (2): Provision of Basic Water and Sanitation Services	500 000	ENGINEERING
Butterworth Pipe Replacement Programme	1 047 120	
Adelaide Canal phase (2)	1 198 481	
Dutywa Dams Refurbishment	1 426 196	
Idutywa : Transfer Station (solid waste)	2 000 000	
Willowvale Public Transport Facility	1 000 000	
Elliotdale Public Transport Facility	1 000 000	
Tourism Marketing and Promotion	600 000	LHSED
EPWP Top-Up Funding	11 788 292	LHSED
Knowledge & Info Man. Systems	600 000	MM
Achievement Booklet	350 000	MM

- p) The Competency Centre under Budget and Treasury vote, requires to transfer their capital budget of R700 000 from vehicles to general expenses in order to ensure the smooth operational running of the centre.

Additional Grant Funding

- q) Government Gazette 37074 allocated new funding to ADM for Rural Households Infrastructure Grant. An amount of R8 500 000 for 2013/14, extending for two more financial years of R9 000 000 and R8 328 000 for 2014/5 and 2015/16 years respectively. This is a new allocation to ADM and not a reclassification of a grant.

Reclassification of expenditure from operating to external funds budget

- r) The Financial Management Grant Budget was incorporated in the operating budget, under the Budget and Treasury vote. However, following disclosure queries from the Auditor General's office, it has become necessary to reclassify this expenditure as an external fund. This involved the entire budget of R1 250 000, including R51 000 Capital.

Reduction in income and expenditure

- s) A portion of the MIG funds can be utilized for funding the operations of the Project Management Unit (PMU). In the original 2013/14 budget submission, this portion was reflected separately as income for PMU. However, during the 2012/13 audit, the Auditor General indicated that this amounted to duplication, as the full amount is already reflected under the MIG fund. Therefore it is required to reduce the operating expenditure and income accounts by this amount to correct the error in reflection.

Reclassification of grant funding from capital to operating expenditure

- t) ADM was allocated R2 347 000 for the Rural Roads Asset Management Grant in the Division of Revenue Act 2013. As ADM is merely administering this funding on behalf of the local municipalities, any assets that are bought from this grant will become the property of the local municipality and cannot ultimately be capitalised in the books of ADM as an asset. Therefore from a disclosure point of view, in the books of ADM, the grant needs to be re-classified as an operating expense and not as a capital item.

Transfer of R89 400 000 Project allocation from Strategic Management to Municipal Management Department

- u) The total project allocation for 2013/14 was pooled under the Strategic Management Department vote and is allocated to departments on application. As approval for this allocation and management of the entire process is housed in the Municipal Management Department, (MM) the shifting of these funds to the MM's department is required.

ANNEXURES

1. Annexure A: Breakdown of the Mandela Project of R1 190 416
2. Annexure B: Detailed expenditure per department on Mandela Project
3. Annexure C: Detailed list of projects allocations from savings pool
4. Annexure D: Roll over application for MIG

5. Annexure E: Roll over application for FMG
6. Annexure F: Roll over application for MSIG
7. Annexure G: Roll over application for EPWP
8. Annexure H: MFMA Circular no 67 Extract
9. Annexure I: Approval of roll over applications from NT
10. Annexure J: Communication with NT regarding outstanding approvals of rollover applications

STAFF IMPLICATIONS

The adjustment budget will result in the approval of the movement of twelve staff and their related salary costs from CS to LESS in an amount of R2 535 661 namely:

Luleka Tom	Fundiswa Manyifolo
Andile Bovu	Lusanda Solundwana
Pakama Mnapu	Mandisi Ngxekana
Sina Mbutuma	Nozipho Nano
Nokuthula Makalima	Siyanda Jack
Dudzile Mgolombane	Pamela Mgoduka

FINANCIAL IMPLICATIONS

Recommendation	Reclassification	Increased Income	Increased Expenditure	Funding Source
a		R 1 190 416	R 1 190 416	Prior year income from RBIG vat savings
b		R53 709 117	R53 709 117	Unspent funds in projects pool
c		R12 166 286	R12 166 286	Rollover from DORA
d		R389 077	R389 077	Rollover from DORA
e		R119 226	R119 226	Rollover from DORA
f		R 8 467 273	R 8 467 273	Rollover from DORA
g	R37 478 747			-
h	R2 535 661			-
i		R40 000 000	R40 000 000	Reserves - non cash flow item
j		R70 000 000	R70 000 000	Reserves - non cash flow item
k		R5 600 000	R5 600 000	Savings on

				operational budget and internally funded projects
l	R10 000 000			-
m		(R21 434 000)	(R21 434 000)	-
n	R1 100 000			-
o	R31 332 593			-
p	R700 000			-
q		R8 500 000	R8 500 000	Gazetted from NT
r	R1 250 000			
s		(R6 500 000)	(R6 500 000)	-
t	R2 347 000			-
u	R89 400 000			-
TOTAL:		R182 207 395	R182 207 395	

RECOMMENDATIONS

- a) The new allocation from prior year income to fund projects of R1 190 416 linked to the Mandela Project be approved
- b) The re-allocation of unspent internally funded projects of R 53 709 117 to departments be approved
- c) The rollover of unspent funds on Municipal Infrastructure Grant (MIG) of R12 166 286 be approved
- d) The rollover of unspent fund on the Financial Management Grant (FMG) of R389 077 be approved
- e) The rollover of unspent funds on the Municipal Systems Improvement Grant (MSIG) of R119 226 be approved
- f) The rollover of unspent funds on the Expanded Public Work Programme Grant (EPWP) of R 8 467 273 be approved
- g) The transfer of Post Retirement Benefits, Longs Service Awards, Pension and Medical Aid for pensioners from Legislative Support Services vote to Corporate Services vote, amounting to R37 478 747 be approved as well as the reclassifying of R12 650 000 as Interest on Defined Benefit Obligations
- h) Transfer of specific staff from Corporate Services Vote to Legislative and Executive Support Services Vote with associated salary costs of R2 535 661
- i) Increase in the Depreciation budget by R40 000 000 be approved
- j) Increase in the Provision for Bad Debts Budget by R70 000 000 be approved
- k) Increase in the salary, wages and social contributions budget of Health & Protection Services of R5 600 000 be approved
- l) Transfer of R10 000 000 funding from general expenses under Strategic Management 154017594100 to Salary Budget to fund all new posts proposed and filled in 2013/14 be approved
- m) Reduction in the 2013/14 Regional Bulk Infrastructure Grant (RBIG) by R21 434 000 be approved
- n) Reclassification of Software Budget from General Expense to Capital of R1 100 000 be approved
- o) Transfer of entire remaining Vehicle Capital Budget of R31 332 593 to cover the costs of the Essential Car User Scheme Subsidy under Salary Costs (105 073) and Re-

imbursive costs for Essential User Costs (175 073) under General Expenses, and the balance to be allocated to projects

- p) Transfer of R700 000 from BTO vehicle budget to general expenditure for the Competency Centre be approved
- q) New allocation to ADM for Rural Households Infrastructure Grant R8 500 000 for 2013/14, R9 000 000 and R8 328 000 for 2014/5 and 2015/16 years respectively be approved
- r) Transfer of entire Financial Management Grant Budget (FMG) from 25 10 structure to 98 structure, including R51 000 Capital in line with reporting requirements of the Auditor General be approved
- s) Removal of income of R6 500 000 under 35 65 255 027 00 as per reporting requirements of the Auditor General be approved
- t) Reclassifying Rural Roads Asset Management Grant as operating grant in the amount of R2 347 000 be approved
- u) The transfer of the internally funded project allocation of R89.4 million from the Strategic Management Department to the Municipal Management Department be approved