



# MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

**Adjustment Budget 2014/2015 – 2015/2017**

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## PART 1 – ADJUSTMENT BUDGET

### SECTION 1 - MAYOR'S REPORT

The Municipality may revise its approved annual budget through an adjustment budget. The Municipality has assessed its implementation of budget for the first six months of the financial period. It is therefore the results of the aforementioned assessment that informs adjustment budget for 2014/2015.

#### **1. Reasons for the adjustment budget**

- ***Allocation and grant adjustments***

There are no major changes to government grant allocations and subsidies. The only subsidy that has been reduced was the one for Local Economic Development which amounts to R112 000. The reason for the reduction is that this allocation was received by the municipality towards the end of 2013/14 financial year.

- ***Adjustment of revenue and expenditure***

Through financial assessment, the assessment rates collection has been very slow therefore the municipality has reduced assessment rates and electricity services by R1m and R1,3. There has not been additional revenue on service charges and rates except that the municipality has made an assumption that 10% of its 2013/14 outstanding debt could be collected during the 2014/15 financial year. The total debtors book amounted to R51m excluding interest, therefore an assumption has been made that 5,1m of the total debt could be collected. These include an increase of R2,2m for rates, R1,1m for electricity and R1,7m for refuse.

There has been an increase of R7,3m from operating expenditure, the largest portion of increase is from R8m increase in depreciation. Personnel related costs has been reduced by R3,9m and these are savings for funded vacant positions and positions that were filled later this year.

- ***Budget movements within current allocation***

The Municipality has identified savings from different votes and these were utilized to fund votes that had depleted funds. Savings were identified within votes to finance other votes, like,

- Bulk Electricity by R1,5m;
- Water Account by R700 000;
- Legal Fees by R500 000,
- GRAP Compliant Fixed Asset Register by R1m
- Service Delivery Based Projects by R3m.

**2. Any other information considered relevant**

The municipality has no rollovers from the previous financial year. The spending for MIG was at 88% as at December 2014 this shows that the Municipality will be able to spend all the allocation for 2014/15 financial year. Municipality is no longer receiving the grant from DME this poses a challenge since this service is only funded internally.

**3. Recommendation to council regarding MTREF – Adjustment Budget 2014/15**

Given the information and reasons on adjustment budget detailed above, it is recommended that the Council approves the adjustment budget.

## **PART 2 - RESOLUTIONS**

### **Adjustment MTREF 2014/2015**

#### **Recommendations:**

1. That in terms of section 28(2) of the Municipal Finance Management Act 56 of 2003, the adjustment budget of the Great Kei Municipality for the financial year 2014/15, set out in the following tables be approved:
  - Adjustment Budget Financial Performance (revenue and expenditure by Standard Classification), **Table B2**
  - Adjustment Budget Financial Performance (revenue and expenditure by municipal vote), **Table B3**
  - Adjustment Budget Financial Performance (revenue by source and expenditure by type including capital transfers and contributions), **Table B4** and
  - Adjustment Budget Capital Expenditure for both multi-year and single-year, standard classification and funding, **Table B5**
  
2. The adjustment budget was permitted in terms of S28(2) and the following were taken into consideration:
  - Additional revenues with the assumption that 10% of the previous year's debtor's book will be collected.
  - That the utilization of projected saving in one vote towards spending under another vote be authorized; and
  - That any errors in the annual budget be corrected

## **PART 3: EXECUTIVE SUMMARY**

### **Introduction**

The Municipality's collection rate has not improved and the major challenge is that there are service delivery based project that need to be funded internally.

Municipality has applied cost cutting measures even before the adjustment budget, after it has assessed through cash flow statement analysis that it was experiencing financial problems.

### **Provisions on service delivery projects**

Due to limited funds, the municipality is unable to fund for the plant that will assist in increasing the refuse collection points and this would affects service delivery negatively. The municipality has spent 100% on MIG in 2013/14, and this year it has spent 88% as at December 2014. The Municipality is no longer receiving the grant from DME and therefore all electricity related projects are funded internally and this also drains the municipality's funds since this service is run at a loss. There are other infrastructure related projects running within the municipality which amount to R3m and are funded internally.

### **Budget Highlights**

The major adjustments is where the municipality has increased its rates and service charges based on the assumption that 10% of the 2013/14 debtor's book will be collected in the current year. The Municipality's current budget was drained by payments made that related to previous year's accruals and which were not budgeted for in the current year's budget. This is one of the errors that the municipality has corrected in this adjustment budget.

The operating expenditure budget has increased by R7,3m and the capital expenditure budget has increased by R3,6m which relates to infrastructure related projects.

## **Conclusion**

In conclusion the adjustment budget has required R2,9m increase in revenue in order to fund for total municipal expenditure. The other adjustments in operating and capital expenditure were funded by shifting funds within votes that have savings to those with depleted funds. The total adjusted budget on total expenditure has increased by R6, 5m excluding the non – cash items of 27m (which is R23m depreciation and R4m provision for bad debts).