ITEM :

REPORT OF THE CHIEF FINANCIAL OFFICER

2014/2015 BUDGET ADJUSTMENT

PURPOSE OF THE REPORT

The purpose of the report is to obtain Council's approval for the Budget Adjustment of the 2014/2015 financial year.

STATUTORY/LEGAL REQUIREMENT

Municipal adjustments budgets

MFMA Section 28 states that:
28. *(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.

MFMA section 28(b) means that we can only increase existing spending programmes, not add new ones, e.g. projects.

(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.

(6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

National Treasury Circular 42 gives guidance on the funding of the Budget & Adjustment Budget and that all must be cash backed.

<u>STATUTORY/LEGAL REQUIREMENT</u> ***(continued)***

National Treasury Circular 66 dated 11 December 2012 requires that the Auditor General must from 2012/2013 express and opinion in relation to non-cash items as it relates to unauthorised expenditure resulting from overspending.

MBRR paragraph 23 states that:
An Adjustment Budget may be tabled after the Mid-Year Budget & Performance Assessment has been tabled to Council, but not later than 28 February. Only one Adjustment Budget is allowed annually, unless in special cases of additional revenue or after unforeseeable and unavoidable expenditure. An Adjustment Budget to approve the roll-overs of the prior year must be approved by Council by 25 August annually if there are roll-overs on projects.

Only the council may authorise instances of unauthorised expenditure, and *council* ***must*** *do so through an adjustments budget.* This is the rationale for the provisions in **regulation 23(6) of the Municipal Budget and Reporting Regulations (MBRR)** governing when council may authorise unauthorised expenditure in an adjustments budget.

Section 160(2) of the Constitution provides that a council may not delegate the approval of budgets or the imposition of rates, taxes, levies and duties. In other words, *only the council may make decisions related to the raising of municipal revenues and approving (or authorising) the spending of those revenues through the budget or an adjustments budget.*

Unforeseen and unavoidable expenditure

MFMA section 29. *(1) The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.*

(2) Any such expenditure—
(a) must be in accordance with any framework that may be prescribed;
(b) may not exceed a prescribed percentage of the approved annual budget;
(c) must be reported by the mayor to the municipal council at its next meeting; and
(d) must be appropriated in an adjustments budget.

(3) If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and section 32 applies.

Unspent funds

MFMA section 30. *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 in terms of section 16(3).*

MFMA section 22. *Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must*
(b) submit the annual budget—
(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury;

STATUTORY/LEGAL REQUIREMENT ***(continued)***

Municipal Budget & Reporting Regulations:

"supporting documentation", in relation to –

(a) an annual budget of a municipality, means documentation referred to in section 17(3) of the Act;

(b) an annual budget of a municipal entity, means documentation that informs the annual budget;

(c) an adjustments budget of a municipality, means documentation referred to in section 28(5)(d) of the Act; or

(d) an adjustments budget of a municipal entity, means documentation that informs the adjustments budget.

25. (1) A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in regulation **21** before approving the adjustments budget.

In terms of MBRR section 27 (2) (b) you must also submit the adjusted SDBIP 10 working days after council approved it in terms of MFMA section 54 (1) (c):

Submission of approved adjustments budget and other documents

27. (1) The municipal manager must comply with section 28(7) of the Act read together with section 24(3) of the Act within ten working days after the municipal council has approved an adjustments budget.

(2) When submitting an adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act read together with section 24(3) of the Act, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –

(a) the supporting documentation within ten working days after the municipal council has approved the adjustments budget;

(b) the amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of section 54(1)(c) of the Act; and

STATUTORY/LEGAL REQUIREMENT *(continued)*

Municipal Budget & Reporting Regulations:

Authorisation of unforeseen and unavoidable expenditure

71. (1) The mayor of a municipality may authorise expenditure in terms of section 29 of the Act only if –

(a) the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and

(b) the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the Act to authorise the expenditure may –

(i) result in significant financial loss for the municipality;

(ii) cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;

(iii) lead to loss of life or serious injury or significant damage to property; or

(iv) obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

(2) The mayor of a municipality may not authorise expenditure in terms of section 29 of the Act if the expenditure –

(a) was considered by the council, but not approved in the annual budget or an adjustments budget;

(b) is required for –

(i) price increases of goods or services during the financial year;

(ii) new municipal services or functions during the financial year;

(iii) the extension of existing municipal services or functions during the financial year;

(iv) the appointment of personnel during the financial year; or

(v) allocating discretionary appropriations to any vote during the financial year; or

(c) would contravene any existing council policy; or

(d) is intended to ratify irregular or fruitless and wasteful expenditure.

<u>STATUTORY/LEGAL REQUIREMENT</u> ***(continued)***

Municipal Budget & Reporting Regulations:

Monetary limits on unforeseen and unavoidable expenditure

72. The amount of expenditure that a mayor of a municipality may authorise in terms of section 29 of the Act is limited to –

(a) 5% of the municipality's own revenue in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;

(b) the greater of R 5 million or 4% of the municipality's own revenue in the case of a municipality with approved total revenue in its current annual budget greater than R250 million but not exceeding R500 million; and

(c) R15 million in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

Thus, section 71 means that unforeseen adjustments could not have existed at original budget time and they should not have been projects that had been considering during the original budget but not approved.

Adjustments may also not be made for new appointments or discretionary allocations or to contravene an existing council policy.

In terms of Section 72, our own revenue is only interest and abattoir, thus 5% of R 7 271 000 = R 363 550.

In terms of MFMA section 54 (1) (c) the municipality must make revisions to the SDBIP based on the mid-year performance assessment (MFMA s 72) and submit to council for approval following approval of the Adjustment Budget:

Budgetary control and early identification of financial problems

54. (1) On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must—

(c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;

(3) The mayor must ensure that any revisions of the service delivery and budget implementation plan are made public promptly.

The new Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009 is effective for budgets prepared from 1 July 2010.

BACKGOUND, EXPOSITION, FACTS AND PROPOSALS

Council approved the 2014/2015 Annual Budget in Item **A173/2014** on 29 May 2014. A mid year assessment was carried out based on the actual figures for the period ending 31 December 2014 and was approved by Council on 29 January 2015. The Budget Adjustment is required mainly due to the following:

- Increase in abattoir revenue projections
- Increase in budgeted salary increase from 6.6% to 6.79%
- Increase in audit fees for AG audit of 13/14 financial year
- Virements and savings in operating expenditure
- Adjustments to the 14/15 IDP

The 14/15 Adjustment Budget for the approval of projects rolled over from the previous year in terms of MBRR section 23 was approved by Council on 28 August 2014 in Council item **A196/2014**.

The Adjustment Budget is discussed as follows:

Operating Revenue

Council approved budgeted revenue of R 111 456 000.

During the financial year, National Treasury rejected our application for roll over of the 13/14 unspent MSIG and therefore this is not included in the adjusted budget as the amount of R 401 868 had to be returned to the National Revenue Fund in November 2014.

The IDP roll over budget from 13/14 that was approved by Council in August 2014 is also included in this adjusted budget.

The abattoir has further improved during the 14/15 budget year through increased turnover by expanding the consumer base. Therefore the revenue is higher than anticipated and the corresponding variable operating expenditure directly related to service delivery also increased accordingly. There was also increase repairs & maintenance required in November 2014 that was approved by the Executive Mayor as an s29 unforeseen expenditure to be corrected in this adjusted budget. It is therefore necessary to increase the revenue to equal the amount of the corresponding spending programmes increased due to increased productivity:

1. Slaughtering fees (Abattoir Department) R 524 000

The remaining revenue adjustments is a decrease in anticipated interest received due to lower cash balances, an increase of R 127 000 in PED for the funding raised on the LED summit with a corresponding expenditure increase in the IDP, the R 147 666 transfer from LEDET for the Biosphere project, and R 56 074 profit on the disposal of vehicles and assets from the auction held in July 2014.

The total adjustment to revenue is an R 752 000 increase bringing the total budgeted revenue after adjustment to R 112 208 000.

BACKGOUND, EXPOSITION, FACTS AND PROPOSALS ***(continued)***

Operating expenditure

Council approved an operating budget amounting to R 120 545 000 excluding the IDP operating projects (R 125 216 000 including IDP operating projects).

Special care was taken to manage expenditure in order to alleviate the cash flow constraints anticipated in the 14/15 and 15/16 budget years.

In the original 14/15 Budget an annual salary increase of 6.6% for employees was budgeted but 6.79% was implemented in terms of SALGA Collective Agreement. Salaries was increased by R 595 000 from R 67 477 000 to R 68 072 000 to accommodate this higher salary increase. The amount is lower than the actual impact mainly due to the various vacancies that existed in these departments for the budget year under review. The total adjusted 14/15 personnel budget includes budgets for provisions, skills development levy, workmen's compensation and actuarial valuations.

Depreciation on assets was decreased by R 155 000 from R 7 181 000 to R 7 026 000 in terms of more recent projections; the reduction is due some firefighting asset procurements are taking longer than anticipated and therefore have not yet been capitalised or commenced depreciation, two of which relate to current litigation with Fire & Emergency for failure to render as per the SLA.

The major reason for the increase when including operating project expenditure is the inclusion of the 13/14 roll over project approved by Council on 28 August 2014 to an amount of R 8 226 256.

The most significant change in the general expenditure operating budget is the increase in audit fees of R 360 000, the provision for performance bonus of MM of R 175 000, the R 105 000 operation allowance paid per the Sithole arbitration award, R 120 000 travel allowance for Koka at Abattoir as the position was not budgeted as permanent, and the R 350 000 increase in abattoir operating expenditure due to increased throughput. There was not additional allocation corrected for repairs and maintenance at the abattoir, but the S29 request of December 2014 has been accommodated with virements in December 2014.

The R 105 000 for the Sithole arbitration award was paid end of December 2014 as an s29 unforeseen payment approved by the Executive Mayor to be corrected in this adjustment budget. This relates to operational allowance implemented retrospectively from August 2012.

The audit fee increase constitutes irregular expenditure because AG failed to inform WDM of the pending over expenditure on the agreed contract amount as per the audit strategy and order issued before incurring the additional expenditure, but AG is of the opinion that this does not have to be recognised in the financial statements as they're costing is unit based and therefore is deemed variable as per their interpretation. We however still communicated our dissatisfaction with an audit fee of R 1 850 000 for a municipality of our size and quality.

The total increase to operating expenditure is R 9 151 000 bringing the total budgeted expenditure after adjustment to R 134 367 000 including the IDP operating projects (R 121 736 000 excluding IDP operating projects). Excluding IDP operating expenditure the budgeted operating expenditure increased by R 1 191 000.

BACKGOUND, EXPOSITION, FACTS AND PROPOSALS ***(continued)***

Projects rolled over from prior years & Projects on the 2014/15 IDP

Section 28(e) of the MFMA reads as follows:

"an adjustment budget may authorise the spending of funds that were unspent at the end of the financial year where the under-spending could not reasonably have been foreseen at the time to include projected rollovers when the annual budget for the current year was approved by the council"

MBRR paragraph 23 states that:
An Adjustment Budget to approve the roll-overs of the prior year must be approved by Council by 25 August annually if there are roll-overs on projects.

In terms of Circular 54 and MFMA section 28(b) no new projects may be added during an Adjustment Budget but Council may consider requests that will be adding to / removing from existing projects.

An amount of R 17 013 355 was rolled over from the 13/14 budget year and this was not included upon approval of the original 14/15 budget and is included in the "Other Adjusted" Column. The roll over budget originally included R 8 226 256 operating expenditure and R 8 787 099 capital expenditure. During the mid-year review changes were identified on some of these projects.

Except for the inclusion of 13/14 roll over projects, the following changes was made to projects:

- Operating project expenditure was increased by R 113 541
- Capital project expenditure of R 380 000 was transferred from operating to capital expenditure

Which relates to the following:

- R 127 000 funding raised on LED Summit was included (R 27 000 to UE31 and R 100 000 to UE38)

- R 147 666 LEDET grant was added to UE40

- Savings was declared on RS41 and IN48 to a total of R 31 125

- R 130 000 was removed from IN48 as the MSIG roll over for this project has been rejected. The R 20 000 remaining on this project is thus now funded from our own funds, but the request is tabled to not remove the R 130 000, but move it to 15/16, as this project still has to continue to resolve the Wage Curve implementation and implementation of SALGBC TASK system.

Operating project expenditure in total was increased from R 4 291 000 originally (R 4 761 000 if including capital projects of R 380 000 included under operating) with R 8 226 256 13/14 roll over IDP operating expenditure and R 113 541 adjustment budget changes to R 12 630 797.

BACKGOUND, EXPOSITION, FACTS AND PROPOSALS ***(continued)***

Projects rolled over from prior years & Projects on the 2014/15 IDP ***(continued)***

The project expenditure as per the original and adjusted IDP & Budgets is reconciled as follows:

	Capital	Operating	Total
Original 14/15 Budget	**0**	**4 671 000**	**4 671 000**
Adjustment Budget Roll Over – August 2014	8 787 099	8 226 256	17 013 355
Revised Total August 2014	**8 787 099**	**12 897 256**	**21 684 355**
Adjustment Budget Mid-year review – February 2015			
- capex transfer	380 000	(380 000)	0
- adjustments	0	113 541	113 541
Revised Total February 2015	**9 167 099**	**12 630 797**	**21 797 896**

The list of projects detailing all the adjustments is attached as Annexure A.

Motivations for each project amendment is required in terms of MFMA section 28 (5) (a) - (d) and MBRR section 25 (1) as specified above in the Legal Requirement section, but since all of the above changes are immaterial or relate to a correction of capex in the original budget, there is no motivations attached to this item.

2015/16 Current Commitments approved on the 2014/15 IDP MTREF

There are no current commitments for the 15/16 budget as all multi-year projects are to be completed in 14/15.

STAFF IMPLICATIONS

None

FINANCIAL IMPLICATIONS

See calculations / explanations above and attached annexures below

OTHER PARTIES CONSULTED

Section 57 managers
Divisional managers
Project managers

ANNEXURES

Schedule B - Detailed Budget Schedules in terms of the National Treasury MBRR Template

Annexure A – IDP Project listing with proposed adjustments and revisions to SDBIP forecasts

Annexure B – Individual income and expenditure adjustments

AUTHORITY

Municipal Finance Management Act No 56 of 2003 (MFMA)
MFMA Circulars
Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009

RECOMMENDATIONS

That:

1. The report by the Chief Financial Officer regarding the 2014/2015 Adjustment Budget be noted.

2. Council approve the Adjusted Budget for the 2014/2015 budget year as contained in the agenda.

3. Council approve the revised SDBIP project spending forecasts for the 2014/2015 budget year as contained in the agenda.

4. The 2014/2015 Adjustment Budget be submitted to National and Provincial Treasury in printed and electronic formats within 10 working days after Council approval in compliance with MFMA section 22(b)(i) and MBRR section 27(2)(a) & (b).

5. The budget & SDBIP adjustments be made public in compliance with MFMA section 54(3).