

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Council
DIVISION REQUESTING THE SUBMISSION : Finance
TITLE OF THE SUBMISSION : **Adjustment Budget**

SOLUTION REQUIRED

Approval	X
Information	

1. PURPOSE

To request council to approved the 2018/19 adjustment budget

2. BACKGROUND

Section 28 of the MFMA (Municipal Adjustments Budgets) states that:

(1) A Municipality may revise an approved annual budget through an adjustment budgets.
(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 of funds 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 council; f) may correct any errors in the annual budget; and g) may provide for any other expenditure within a prescribed framework.

(3) An adjustment budget must be in a prescribed form.

(4) Only the mayor may table an adjustments budgets 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; (c) an explanation of the impact of any increased spending on 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.

3. LEGISLATION PROVISION
MFMA sec. 28(1) (2)(3)(4)(5)(6)

4. ATTACHMENTS

- **Annexure A – Adjustment budget**
- **Annexure B – B Schedule**

RECOMMENDATION

1. That Council approve the adjustments budget comprising of:
R858,415,727 for revenue, R792,983,209 operational expenditure and a Capital budget of R95,270,367.
This results in a non-cash deficit of R29.8m which is reduced from R36.1m in the original budget.

ANNEXURE A

ADJUSTMENT BUDGET

1. ASSESSMENT OF YEAR TO DATE INCOME AND EXPENDITURE.

The mid-term/2nd quarter financial assessments was done in order to determine whether or not there was a need to adjust the budget. We looked at revenue and expenditure trends, taking into consideration the collection rate of the municipality at mid-year

2. REVENUE AND EXPENDITURE ADJUSTMENTS BUDGET 2018/19

2.1 Revenue

Description	Original 2018/19	Adjustments 2018/19	% increase as(decrease)
Property rates	110,157,707	110,739,305	0.5
Service charges - Electricity revenue	306,050,089	300,872,254	(1.7)
Service charges - Water revenue	113,659,055	116,999,644	2.9
Service charges - Sanitation revenue	29,038,135	29,515,794	1.6
Service charges - Refuse revenue	31,655,265	31,498,689	(0.5)
Rental of facilities and equipment	4,798,788	5,258,784	9.5
Interest earned	17,872,439	25,162,031	40.7
Fines	45,920,000	19,145,000	(58.3)
Transfers recognized	207,686,779	211,371,596	1.8
Other revenue	4,685,625	7,852,630	40.3
Total	871,523,882	858,415,727	

The revenue budget has decreased by a margin of R13m from the original budget. The largest revenue items are electricity at 35%, property rates at 13%, operational grant income at 25% and water revenue at 14% of the total revenue. The four items generate 87% revenue of the municipality.

2.1.2 Revenue Adjustment budget highlights

- Electricity revenue is expected to decrease by 1.7 percent from the original budget as trend analysis at mid-year indicated that electricity billing has declined in the 2nd quarter of the financial year due to reduced implementation of credit control policy in some areas of the municipality as a result of community unrest.
- Fines revenue has been decreased by 58% due to delays in appointment of the traffic fine system service provider caused by ineffective internal governance. SLA with preferred bidder was signed in 2018/19, at mid-year approval to allow for implementation of the traffic fine management system had not been received from the department of public prosecution. Traffic fine income is expected to increase as soon as the compliance process has been concluded.

- The operational Grant increased by 1.8% due to roll over on the library grant been approved

3. Expenditure

Description	Original 2018/19	Adjustments 2018/19	% difference increase (decrease)
Employee costs	196,158,190	186,810,629	(4.8)
Councillors remuneration	12,091,333	11,075,754	(8.4)
Debt Impairment	137,910,270	109,533,208	(20.6)
Depreciation	38,768,274	38,921,714	0.4
Finance charges	9,711,200	9,692,381	(0.2)
Bulk purchases: Electricity & Water	296,075,022	306,308,280	3.5
Other materials	22,443,066	19,406,613	(13.5)
Contracted services	55,340,558	64,593,986	16.7
Other expenditure	48,833,421	46,640,644	(4.5)
Total Expenditure	817,331,334	792,983,209	

The expenditure budget has been **decreased by a margin of R24.3m**. The largest expenditure items are bulk electricity and water purchases at 39%, employee related costs at 24% and contracted services at 9%. Debt impairment and depreciation which are non-cash items make up 19% of the total expenditure budget.

Expenditure budget Highlights:

- Contracted services increased mainly due to unplanned repairs and maintenance on emergency power and water failures experienced in the first half of the financial year. An amount of R12m for ERWAT was reallocated from bulk purchases as required by MSCOA classification.
- Debt impairment decreased by 20% due to the decreased projection of fines income revenue.
- Employee costs decreased due to budget for vacant posts being limited to critical posts, Overtime has also slightly decreased by R200k.
- Other materials which is significantly internal repairs and maintenance has reduced by R3m due to reprioritisation of tasks to be undertaken.

4. Capital Budget

	Original budget 2018/19 (R)	Adjustments budget 2018/19 (R)	% + (-)
Own Funded	16,833,800	20,681,690	22.9%
Grant Fund Project	73,633,995	74,588,677	1.3%
Total	90,467,795	95,270,367	

4.1 Capital Budget Highlights

Own Funded Capital Budget

The own funded capital budget increased by R3.5m due to the following:

- Heidelberg Mall Underpass (**R329k**): Unforeseen expenditure will be incurred, it was discovered the underpass is the asset of the municipality donated by the mall, the wing wall had shifted caused the flooding, the revenue of the mall got affected and the closure of the roads caused accidents. The municipality was litigated and the contractor had to be appointed to fix the underpass.
- Impumelelo Offices (**R1.5m**) & Jameson Park (**R3.8m**) substation are roll over projects: Projects were advertised and supply chain processes were finalised in the 2017/18 financial year and were supposed to have been appointed in the 2017/18, thus at the time of finalisation of the 2018/19 budget the projects were not carried over as they were expected to have been concluded in the 2017/18 financial year budget and contractors appointed.
After assessing the service delivery impact that the projects have, a decision was taken to go ahead with the rollover projects with the intention of putting them through the adjustment budget process. Jameson park substation will in the future also increase the revenue stream of the municipality and thus increase the cash-flow.

At mid-term an amount of R664k had been incurred for the Impumelelo Offices, insurance paid out an amount of R1.8m for the refurbishment of this building.

Council must note that at the time of the adjustment budget no expenditure had been incurred for the Heidelberg mall underpass and the Jameson park substation.

Grant Funded Capital Budget

The grant funded Capital Projects Increased by an amount of R955k

Council must note that no MIG was stopped or withdrawn due to slow spending as has been the case for the past 4 financial years.

- An additional amount of R1.9m(INEP) was allocated to the municipality for the electrification of the Ratanda hostel
- A roll-over amount of R380.5k was allowed for recapitalisation of libraries
- An amount of R500k that was allocated for performance management was removed from capex and reallocated to operational grants.
- An amount of R750k was transferred from DPSA for the customer care centre.

GRANT FUNDED CAPITAL PROJECTS 2018/19			
Project Description	Source of Funding	Original	Adj Budget
STREET LIGHTS (EDDSM)	EEDMG	6 000 000.00	6 000 000.00
BULK -KWAZENZELE	INEP	1 659 000.00	1 659 000.00
ELECTRIFICATION- RATANDA EXT 8	INEP	1 301 200.00	-
ELECTRIFICATION- KWAZENZELE MV	INEP	2 325 000.00	2 325 000.00
ELECTRIFICATION- OBED NKOSI	INEP	1 740 000.00	1 740 000.00
ELECTRIFICATION- KWAZENZELE LV	INEP	1 550 000.00	1 550 000.00
ELECTRIFICATION- OBED NKOSI	INEP	1 160 000.00	1 160 000.00
ELECTRIFICATION-RATANDA HOSTEL	INEP	-	1 925 324.00
REWIRING OF HEIDELBERG	Library Plan	700 000.00	700 000.00
FENCING OF HEIDELBERG AND RENSBURG	Library Plan	1 861 595.00	1 861 595.00
DEV SPORTS COMPLEX RENSBURG EXT 4	MIG	5 467 577.00	10 090 190.00
CONST ROADS OBED NKOSI	MIG	20 469 623.00	15 847 010.00
PMS SYSTEM	PMS Grant	500 000.00	-
HARDWARE	DPSA	-	450 000.00
VEHICLE	Recapitalisationt - Libraries	500 000.00	500 000.00
FURNITURE	Recapitalisationt - Libraries	50 000.00	50 000.00
COMPUTER HARDWARE	Recapitalisationt - Libraries	440 000.00	440 000.00
MAINTENANCE DEVON	Recapitalisationt - Libraries	500 000.00	880 558.00
NEW BOOKS	Recapitalisationt - Libraries	1 180 000.00	1 180 000.00
SHARED ECONOMIC INFRASTRUCTURE FACILITY	SBD	1 230 000.00	1 230 000.00
REPLACEMENT OF ASBESTOS PIPES LESEDI P2	WSIG	15 000 000.00	15 000 000.00
UPGRADE OF SEWER PUMP STATION IN LESEDI	WSIG	10 000 000.00	10 000 000.00
TOTAL GRANT FUNDED PROJECTS		73 633 995.00	74 588 677.00

INTERNAL FUNDED CAPITAL PROJECTS 2018/19			
Project Description	Source of Funding	Original	Adj Budget
TRACTOR (GRASS CUTTING)	Internal Funding	270 000	270 000
BUSH CUTTERS; CHAINSAWS; BLOWERS	Internal Funding	100 000	100 000
PALISADE FENCE NURSERY	Internal Funding	60 000	-
LINE DRAWING MACHINE	Internal Funding	5 000	-
GRASSING OF THE JAMESON PARK FIELD	Internal Funding	200 000	200 000
PMS SYSTEM	Internal Funding	300 000	-
OFFICE FURNITURE	Internal Funding	20 000	5 495
FURNITURE	Internal Funding	14 505	14 505
FURNITURE	Internal Funding	159 622	159 622
FURNITURE	Internal Funding	25 000	20 402
ERP SOFTWARE	Internal Funding	2 800 000	-
COMPUTER HARDWARE	Internal Funding	900 000	1 100 000
IMPUMELELO OFFICES	Internal Funding	-	1 500 000
UPGRADE OF MUNICIPAL BUILDING	Internal Funding	422 073	274 285
VEHICLE LDV PATROL	Internal Funding	900 000	770 000
ELECTRIFICATION- RATANDA EXT 8	Internal Funding	498 800	498 800
FURNITURE	Internal Funding	28 800	28 800
TAR CUTTER AND COMPACTOR	Internal Funding	200 000	163 700
RESEALING OF ROADS	Internal Funding	3 000 000	5 000 000
CONSTRUCTION OF ROADS JAMESON PARK	Internal Funding	4 000 000	4 596 790
TRAILERS	Internal Funding	200 000	-
DEVON WASTE WATER WORKS (MINI LAB)	Internal Funding	200 000	165 476
BACKUP SUPPLY EMMASDALE (PUMPSTATION)	Internal Funding	500 000	-
LAB EQUIPMENT	Internal Funding	100 000	100 000
JAMESON PARK SUBSTATION	Internal Funding	-	3 800 000
HEIDELBERG MALL UNDERPASS	Internal Funding	-	329 000
SHARED ECONOMIC INFRASTRUCTURE FACILITY	Internal Funding	1 230 000	1 480 000
ELECTRIFICATION-RATANDA HOSTEL	Internal Funding	700 000	104 815
TOTAL INTERNAL FUNDED PROJECTS		16 833 800	20 681 690