

**REPORT TO COUNCIL : 28 FEBRUARY 2011**  
**OFFICE OF THE EXECUTIVE MAYOR**

**2010/11 MID-YEAR ADJUSTMENT BUDGET**

**File: 5/1/1/3**  
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**1. PURPOSE**

The purpose of the report is for Council to approve the 2010/11 mid-year adjustment budget.

**2. AUTHORITY**

The report is submitted in terms of the Municipal Finance and Management Act (MFMA) No. 56 of 2003.

**3. STATUTORY REQUIREMENTS**

In terms of Chapter 4 Sections 28(1) to (7) of the Municipal Finance Management Act No. 56 of 2003,

“(1) A municipality may adjust an approved budget through an adjustment 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, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- (d) may authorize the utilization of projected savings in one vote towards spending under another vote;
- (e) may authorize 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.”

In terms of MFMA Municipal Budget and Reporting Regulations, Regulation 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.”

#### 4. **BACKGROUND**

On 4 June 2010, Council adopted the 2010/2011 MTREF Budget. Subsequently, on 13 September 2010 Council approved a 2010/2011 MTREF Adjustment Budget which was necessitated by MFMA Municipal Budget and Reporting Regulation, regulation 23(5) in order to roll-over 2009/10 unspent operating and capital projects budgets funded from Unconditional Grant Funding.

The 2010/11 Adjustment Budget is submitted to take into account the following adjustments. Details of these adjustments are attached as Annexure A

<b><u>REVENUE</u></b>			
<b><u>DIRECTORATE</u></b>	<b><u>DESCRIPTION</u></b>	<b><u>REASON</u></b>	<b><u>ADJUSTMENT</u></b>
Finance	Interest on Investments	Interest rates cuts resulted in decrease in interest earned as well as cash flow challenges.	(10,316,138)
Finance	Interest on Outstanding Debtors	Prime rate cuts resulted in decrease in interest earned	(20,031,387)
Engineering Services	Water Sales	Actual Billings less than what is budgeted for – Revenue Management still investigating	(12,547,143)
Engineering Services	Electricity Sales	Actual Billings less than what is budgeted for – Revenue Management still investigating	(44,559,915)
Health & Public safety	Health Subsidy	Additional Allocation	7,244,702
Community Services	Library Subsidy	Additional Allocation	671,000
			<b>(79,538,881)</b>
<b><u>EXPENDITURE</u></b>			<b><u>809,665</u></b>
Engineering Services	Bulk Water Purchases	Bought raw water from DWAF due to the drought conditions	21,830,275
Engineering Services	Bulk Electricity Purchases	Connection fees and fines paid to Eskom for exceeding notified maximum electricity demand.	26,144,454
Engineering Services	Deferred Maintenance	Budget Adjusted to fund shortfall	(15,510,772)
Finance	Audit Fees	Funding for interim audit	1,010,000
Finance	Easy Pay Commission	Insufficient Budget	985,291
Finance	Prepaid Commission	Increase in Eskom Tariffs	1,510,178
Corporate Services	Bursary	Insufficient Budget	639,000
Corporate Services	External Training	Insufficient Budget	500,000
Planning & Economic Dev.	Rental of Trust Centre Building	Annual Increment more than what is budgeted for	1,000,000

<u>DIRECTORATE</u>	<u>DESCRIPTION</u>	<u>REASON</u>	<u>ADJUSTMENT</u>
Community Services	Plant Hire	Hired Plant funding is required for hiring of machinery at all landfill sites and transfer stations for compaction and rehabilitation.	5,000,000
Community Services	Rental of Offices	Budget not sufficient	700,000
Municipal Manager & Finance	Contingency	Used to fund budget shortfall	(2,164,780)
Engineering Services	Electrical Equipment	Used to fund budget shortfall	(2,000,000)
Engineering Services	Maintenance Contracts	Used to fund budget shortfall	(1,000,000)
All Services / Directorates	Poor Relief	Projected Savings	(30,945,483)
Finance Directorate	Contribution to bad Debts	Reduction in Debt Impairment	(8,000,000)
Various Directorates	Various Miscellaneous	Refer Annexure A for reasons	1,111,500
<b>TOTAL ADJUSTMENT</b>			<b>(80,348,546)</b>

## 5. EXPOSITION OF FACTS

### 5.1 2010/2011 OPERATING ADJUSTMENT BUDGET

Table 1 reflects the operating adjustment budget including adjustments to the operating projects.

**TABLE 1: 2010/2011 OPERATING ADJUSTMENT BUDGET SUMMARY PER REVENUE SOURCE AND EXPENDITURE PER CATEGORY**

<b>2010/2011 MID-YEAR ADJUSTMENT BUDGET</b>	<b>2010/2011</b>	<b>2010/2011</b>	<b>2010/2011</b>	<b>2010/2011</b>
	<b>APPROVED BUDGET</b>	<b>1ST ADJUSTMENT BUDGET</b>	<b>2ND ADJUSTMENT BUDGET</b>	<b>MID-YEAR ADJUSTMENT BUDGET</b>
<b>Revenue</b>	(2,928,495,065)	(3,072,705,533)	(3,077,139,845)	(3,077,139,845)
<b>Adjustment Income downwards</b>				79,538,881
<b>Adjust Operating Projects downwards</b>				24,042,524
<b>Total Direct Operating Income</b>	<b>(2,928,495,065)</b>	<b>(3,072,705,533)</b>	<b>(3,077,139,845)</b>	<b>(2,973,558,440)</b>
<b>Expenditure</b>	2,948,391,780	3,072,602,248	3,077,036,560	3,077,036,560
<b>Net Adjustment to expenditure</b>				(79,538,881)
<b>Adjust Operating Projects downwards</b>				(24,042,524)
<b>TOTAL OPERATING EXPENDITURE</b>	<b>2,948,391,780</b>	<b>3,072,602,248</b>	<b>3,077,036,560</b>	<b>2,973,455,155</b>
<b>(SURPLUS)</b>	<b>(103,285)</b>	<b>(103,285)</b>	<b>(103,285)</b>	<b>(103,285)</b>

## **5.1.1 COMMENTS TO THE 2010/11 OPERATING ADJUSTMENT BUDGET**

### **REVENUE ITEMS**

#### **1) Electricity Revenue**

- The electricity revenue is adjusted downwards by R44.6 million due to actual billings being less than what has been projected for the current year.

#### **2) Water Revenue**

- The water revenue is adjusted downwards by R12.5 million due to actual billings being less than what has been projected for the current year.

#### **3) Interest on investments**

- The interest on investment has been projected to be R10.3 million less than what has been budgeted for due to the actual interest on our investments being less than what we projected as a result of cut in prime rate. Another contributory factor is a decreasing in own surplus funds available for investment due to decline in revenue collection.

#### **4) Interest on outstanding debtors**

- The interest on outstanding debtors is projected to be R20 million less than what has been budgeted for due to a decline in prime rate.

### **EXPENDITURE ITEMS**

#### **5) Bulk water purchases**

- Increase in purchases due to drought conditions.

#### **6) Bulk electricity purchases**

- Connection fees and fines paid to Eskom for exceeding notified maximum electricity demand.

#### **7) Audit fees**

- An additional budget allocation of R1 million is necessary for the interim audit which was not anticipated during the 2010/11 budget preparation process.

#### **8) Pre-payment vendors commission**

- An additional budget allocation of R1.7 million is necessary due to Eskom tariff increase.

#### **9) Office rental – Trust Bank Building**

- An additional budget allocation of R1 million is necessary due to annual increment being more than what has been budgeted for.

## 10) Plant Hire

- Hired Plant funding is necessary for hiring of machinery for all landfill sites and garden transfer stations.

### 5.2 2010/11 OPERATING PROJECTS ADJUSTMENT BUDGET

Table 2 reflects the adjustment to the operating projects budget which has resulted in a decrease of R24 million to R214,9 million. Refer to "Annexure B" for further details and comments.

**TABLE 2: 2010/2011 OPERATING PROJECTS BUDGET ADJUSTMENT**

OPEX PER FUNDING SOURCE	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011
	APPROVED	BUDGET	1ST ADJ.	2ND ADJ.	MID YEAR	MID YEAR
	BUDGET	ADJUSTMENTS	BUDGET	BUDGET	ADJ.	ADJ. BUDGET
<b><u>NEW PROJECTS</u></b>						
Own Funds	37,785,000	(300,000)	37,485,000	37,285,000	(3,016,782)	34,268,218
Dept. Local Govt, Housing & Traditional Affairs	0	0	0	0	500,000	500,000
Dept. Land Affairs	1,000,000	0	1,000,000	1,000,000	(1,000,000)	0
Dept. Local Government and Housing	42,675,050	0	42,675,050	41,029,250	(1,898,450)	39,130,800
Dept of Water Affairs	0	0	0	2,329,622	97,378	2,427,000
Equitable Share	19,500,000	0	19,500,000	19,500,000	0	19,500,000
European Commission	0	0	0	0	1,227,340	1,227,340
Finance Management Grant	1,200,000	0	1,200,000	1,200,000	0	1,200,000
Municipal System Improvement Grant	650,000	(150,000)	500,000	750,000	0	750,000
Sectoral Education & Training Authority	5,750,000	0	5,750,000	5,750,000	(4,730,570)	1,019,430
SALAIDA	750,000	0	750,000	750,000	0	750,000
Leiden	992,000	0	992,000	992,000	0	992,000
<b>TOTAL NEW OPEX PROJECTS</b>	<b>110,302,050</b>	<b>(450,000)</b>	<b>109,852,050</b>	<b>110,585,872</b>	<b>(8,821,084)</b>	<b>101,764,788</b>
<b><u>ROLLED-OVER PROJECTS</u></b>						
Own Funds	0	15,234,044	15,234,044	15,330,628	(102,482)	15,228,146
Buffalo City Metropolitan Transport	0	342,148	342,148	342,148	0	342,148
Development Bank of South Africa	0	14,779	14,779	14,779	0	14,779
Dept. Environmental Affairs and Tourism	0	140,000	140,000	140,000	0	140,000
Dept. Local Govt, Housing & Traditional Affairs	0	647,363	647,363	647,363	0	647,363
Dept of Provincial Local Government	0	2,789,158	2,789,158	2,110,158	0	2,110,158
Dept of Water Affairs	0	0	0	3,110,196	0	3,110,196
Disaster Management Fund	0	200,000	200,000	200,000	96,999	296,999
Equitable Share	0	4,589,929	4,589,929	4,589,929	0	4,589,929
European Commission	0	1,135,834	1,135,834	1,135,834	0	1,135,834
Galve (ICDL)	0	828,889	828,889	828,889	0	828,889
Leiden	0	1,179,455	1,179,455	1,179,455	0	1,179,455
Municipal System Improvement Grant	0	0	0	219,594	0	219,594
Other (DPLG)	0	500,000	500,000	500,000	(500,000)	0
Dept. Housing and Local Government	0	95,174,587	95,174,587	95,872,720	(14,031,675)	81,841,045
Sectoral Education & Training Authority	0	1,884,282	1,884,282	1,884,282	(684,282)	1,200,000
Trust Funds	0	0	0	254,984	0	254,984
<b>TOTAL ROLLED-OVER OPEX PROJECTS</b>	<b>0</b>	<b>124,660,468</b>	<b>124,660,468</b>	<b>128,360,958</b>	<b>(15,221,440)</b>	<b>113,139,518</b>
<b>TOTAL OPEX PER FUNDING SOURCE</b>	<b>110,302,050</b>	<b>124,210,468</b>	<b>234,512,518</b>	<b>238,946,830</b>	<b>(24,042,524)</b>	<b>214,904,306</b>

### 5.3 2010/2011 CAPITAL BUDGET ADJUSTMENT

Table 3 reflects the adjustments to the capital projects which has resulted in a decrease of R18,3 million to R750.6 million. Refer to "Annexure C", for further details and comments.

**TABLE 3: 2010/2011 CAPITAL BUDGET ADJUSTMENT SUMMARY**

CAPEX PER FUNDING SOURCE	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011
	APPROVED	BUDGET	1ST ADJ	BUDGET	2ND ADJ.	MID YEAR	MID YEAR
	BUDGET	ADJ.	BUDGET	ADJ.	BUDGET	ADJ.	ADJ.
<b>NEW PROJECTS</b>							
Capital Replacement Reserve	170,742,024	11,100,000	181,842,024	0	181,842,024	(4,444,420)	177,397,604
Dept. Local Government and Housing	9,800,000	0	9,800,000	0	9,800,000	(7,700,000)	2,100,000
Electricity Demand Side Management	4,000,000	0	4,000,000	0	4,000,000	0	4,000,000
European Commission	0	0	0	0	0	7,544,000	7,544,000
Leiden	2,588,000	0	2,588,000	0	2,588,000	0	2,588,000
Municipal Electricity Provider	20,000,000	0	20,000,000	0	20,000,000	0	20,000,000
Municipal Infrastructure Grant	190,004,332	0	190,004,332	2,890,969	192,895,301	0	192,895,301
Neighbourhood Development Partnership Grant	10,500,000	0	10,500,000	0	10,500,000	(10,500,000)	0
Provincial Treasury - LED Support Programme	0	0	0	0	0	708,435	708,435
Public Transport Infrastructure Grant	71,478,000	0	71,478,000	0	71,478,000	0	71,478,000
Public	1,000,000	0	1,000,000	0	1,000,000	0	1,000,000
Office of the Premier	0	500,000	500,000	0	500,000	0	500,000
<b>TOTAL NEW CAPEX</b>	<b>480,112,356</b>	<b>11,600,000</b>	<b>491,712,356</b>	<b>2,890,969</b>	<b>494,603,325</b>	<b>(14,391,985)</b>	<b>480,211,340</b>
<b>ROLLED-OVER PROJECTS</b>							
BCM Metropolitan Transport	0	0	0	713,832	713,832	0	713,832
Capital Replacement Reserve	0	72,446,429	72,446,429	124,127	72,570,556	1,198,277	73,768,833
Development Bank of South Africa Phase 5	0	25,095,360	25,095,360	0	25,095,360	14,281,055	39,376,415
Development Bank of South Africa Phase 4	0	36,346,079	36,346,079	0	36,346,079	(3,392,858)	32,953,221
Dept. Local Government and Housing	0	30,692,231	30,692,231	0	30,692,231	(9,708,000)	20,984,231
Dept. of Local Government & Traditional Affairs	0	144,204	144,204	0	144,204	0	144,204
Dept. of Water Affairs	0	0	0	24,227	24,227	0	24,227
Eastern Cape Development Co-operation	0	0	0	0	0	415,150	415,150
Leiden	0	608,065	608,065	0	608,065	0	608,065
Municipal Infrastructure Grant	0	0	0	46,849,565	46,849,565	(5,874,687)	40,974,878
Neighbourhood Development Partnership Grant	0	0	0	236,181	236,181	(20,000)	216,181
Dept. Science & Technology	0	390,580	390,580	0	390,580	0	390,580
Disaster Management Grant	0	434,401	434,401	0	434,401	(96,999)	337,402
Dept. Sports Recreation Arts & Culture	0	22,204,431	22,204,431	0	22,204,431	0	22,204,431
Dept. Environmental Affairs & Tourism	0	5,239	5,239	0	5,239	0	5,239
Dept of Land Affairs	0	2,015,676	2,015,676	0	2,015,676	0	2,015,676
Public Transport Infrastructure Grant	0	0	0	35,004,517	35,004,517	0	35,004,517
European Commission	0	227,469	227,469	708,435	935,904	(708,435)	227,469
<b>TOTAL ROLLED-OVER CAPEX</b>	<b>0</b>	<b>190,610,164</b>	<b>190,610,164</b>	<b>83,660,884</b>	<b>274,271,048</b>	<b>(3,906,497)</b>	<b>270,364,551</b>
<b>TOTAL CAPEX PER FUNDING SOURCE</b>	<b>480,112,356</b>	<b>202,210,164</b>	<b>682,322,521</b>	<b>86,551,853</b>	<b>768,874,374</b>	<b>(18,298,482)</b>	<b>750,575,892</b>

## 6. CHALLENGES

Actual billing for water and electricity is less than what has been budgeted for which has resulted in the adjustment of revenue and expenditure downwards.

### Corrective action to address the challenge:

An analysis of revenue trends has been done and strategies are being implemented to address the variances.

## 7. FINANCIAL IMPLICATIONS

7.1 There is no impact on the tariffs on the adjustments to the 2010/11 operating budget.

7.2 The effects of the adjustments to the 2010/11 Capital and Operating Budget are:

- A decrease in the Operating Budget of R103,581,405 to R2,973,558,440.
- A decrease in the Capital Budget of R18,298,482 to R750,575,892.

## 8. STAFF IMPLICATIONS

Only critical posts will be filled.

## 9. OTHER PARTIES CONSULTED

- Budget Committee
- Directorates

## 10. RECOMMENDATIONS

The table indicated below depicts the adjustment trends in terms of the budget for the first, second and mid-year terms:

<b>2010/2011 MID-YEAR ADJUSTMENT BUDGET</b>	<b>2010/2011</b>	<b>2010/2011</b>	<b>2010/2011</b>	<b>2010/2011</b>
	<b>APPROVED BUDGET</b>	<b>1ST ADJUSTMENT BUDGET</b>	<b>2ND ADJUSTMENT BUDGET</b>	<b>MID-YEAR ADJUSTMENT BUDGET</b>
<b>Operating Budget</b>	<b>2,928,495,065</b>	<b>3,072,705,533</b>	<b>3,077,139,845</b>	<b>2,973,558,440</b>
<b>Capital Budget</b>	<b>480,112,356</b>	<b>682,322,521</b>	<b>768,874,374</b>	<b>750,575,892</b>
<b>Total Budget</b>	<b>3,408,607,421</b>	<b>3,755,028,054</b>	<b>3,846,014,219</b>	<b>3,724,134,332</b>

It is recommended that:

Council approves the 2010/11 mid-year adjustment budget as follows:

1. A decrease in the Operating Budget of R103,581,405 to R2,973,558,440 as indicated in the table above.
2. A decrease in the Capital Budget of R18,298,482 to R750,575,892 as indicated in the table above..

**CLLR. Z. FAKU**  
**EXECUTIVE MAYOR**

### **Annexures**

The following annexures are attached for perusal:

1. Annexure "A" - Additional Budget Requests
2. Annexure "B" - Operating Projects Adjustment Schedule.
3. Annexure "C" – Capital Projects Adjustment Schedule.