

**REPORT TO SPECIAL COUNCIL: 31 OCTOBER 2011  
OFFICE OF THE EXECUTIVE MAYOR**

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**2011/12 OPERATING AND CAPITAL PROJECTS ROLL-OVER ADJUSTMENT  
BUDGET REPORT**

**1. PURPOSE**

The purpose of the report is for Council to consider and approve the 2011/12 operating and capital projects roll-over adjustment budget report.

**2. AUTHORITY**

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

**3. LEGAL / STATUTORY REQUIREMENTS**

In terms of Chapter 4 Sections 28(1) to (7) of the Municipal Finance Management Act No. 56 of 2003, a municipality may adjust an approved budget through an adjustment budget.

In terms of Section 28 (2) (e) of the Municipal Finance Management Act No. 56 of 2003 a municipality:

*“(2) (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 the Council.”*

In terms of Municipal Budget and Reporting Regulations, Regulation 23(5):

*“Reg. 23 (5) An adjustments budget referred to in section 28 (2) (e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.”*

**4. BACKGROUND**

During the preparation of the 2011/12 Medium Term Revenue and Expenditure Framework (MTREF) Budget, Directorates submitted requests for roll-over of own funded projects due to the fact that they anticipated not to spend the funding in the 2010/11 financial year. Subsequently it has become necessary to do an adjustment budget to roll-overs of own funded projects due to expenditure in the 2010/11 financial year that has taken place after roll-overs were approved by Council budget resulting in reduction of available budget for the respective operating and capital projects.

## 5. EXPOSITION OF FACTS

The adjustment of the approved roll-overs is done in order to align the 2011/12 own-funded operating and capital projects budgets with the available funds as at 30 June 2011 as well as to roll-over the unspent but committed unconditional grant-funded projects.

### .5.1 2011/12 CAPITAL PROJECTS BUDGET ADJUSTMENT

Table 1 reflects the adjustments to the rolled-over own-funded and unconditional grant-funded capital projects to the available funding. This adjustment has resulted in an increase of R55,5 million to the capital projects budget from R764.7 million to R820.2 million (Refer to "Annexure A" for details).

**TABLE 1: 2011/12 CAPITAL BUDGET ADJUSTMENT SUMMARY**

CAPEX PER FUNDING SOURCE	2011/2012	2011/2012	2011/2012
	APPROVED BUDGET	BUDGET ADJUSTMENTS	1st ROLL-OVER ADJ. BUDGET
<b><u>NEW PROJECTS</u></b>			
Own Funds	58 584 502	10 000 000	68 584 502
Electricity Demand Side Management	4 000 000	0	4 000 000
Human Settlement Development Grant	39 344 834	0	39 344 834
Intergrated National Electricity Programme	21 000 000	0	21 000 000
Urban Settlement Development Grant	409 233 906	0	409 233 906
Public Transport Infrastructure and Systems Grant	180 000 000	0	180 000 000
<b>TOTAL NEW CAPEX</b>	<b>712 163 242</b>	<b>10 000 000</b>	<b>722 163 242</b>
<b><u>ROLLED-OVER PROJECTS</u></b>			
BCM Metropolitan Transport	710 630	0	710 630
Own Funds	51 666 539	7 645 888	59 312 427
Disaster Management Grant	128 719	33 875	162 594
DBSA Phase 4 and 5	0	17 577 425	17 577 425
DEDEAT	0	5 239	5 239
Dept of Sports Arts and Culture	0	11 079 707	11 079 707
Dept of Science and Technology	0	334 147	334 147
Dept of Land Affairs	0	4 384 854	4 384 854
Dept of Local Government and Traditional Affairs	0	10 643	10 643
Eastern Cape Development Co-Operation	0	67 358	67 358
European Commission	0	171 183	171 183
Leiden Platform	0	2 722 220	2 722 220
Office of the Premier	0	500 000	500 000
Local Government and Housing	0	644 462	644 462
Provincial Treasury Office - LED Support Programme	0	375 269	375 269
<b>TOTAL ROLLED-OVER CAPEX</b>	<b>52 505 888</b>	<b>45 552 271</b>	<b>98 058 159</b>
<b>TOTAL CAPEX PER FUNDING SOURCE</b>	<b>764 669 130</b>	<b>55 552 271</b>	<b>820 221 401</b>

#### 5.1.1 COMMENTS ON THE CAPITAL BUDGET PROJECTS

##### (i) Own Funds

There is an increase of R17,6 million on Own Funds of which R10 million is in respect of Asset Replacements for 2011/2012 financial year insurance claims and remaining R7.6 million is made up of various capital projects across the Directorates.

**(ii) DBSA Phase 4 and 5**

The R17,5 million funding has been redirected to two projects namely: Rural and Urban Roads R10 million (Coastal Wards – 32, 9, 6, 8, 13, 16 and 33/ Midland Wards 11, 20, 21, 22, 30, 48 and 50 / Inland Wards – 37, 39, 36, 35, 43, 36 and 38), KWT Fire Station R2 million and West Bank Restitution Projects R5,5 million and these projects are expected to be completed by the end of December 2011.

**(iii) Dept of Sports Arts and Culture**

The DSRAC-funded 2010 legacy projects are still at implementation stage due to contracts that were terminated as a result of non-performance by the appointed contractor. Contractors have since been appointed and anticipated completion date to complete the projects is January 2012.

**(iv) Housing (Provincial Dept of Human Settlement)**

The Reeston Phase 3: stage 2 housing project for internal services of 2500 had to be rolled over due to litigation challenges and the re-tendering of the project only commenced in January 2011.

The Manyano / Thembelihle housing project of 850 sites also had to be rolled over as the project only commenced in April 2011 due to addressing to organ of state procurement process by the PDoHS and subsequent funding shortfall. This project was also included in the Ernest & Young investigation, thereby prolonging administrative processes in addressing the procurement processes. However, these challenges have since been addressed and the contractor is on site. The project will be completed in the 2011/2012 financial year.

The Zone CC 18 Phase 2 housing project with regard to the provision of 1500 serviced sites was delayed as a resulting of appointing a Service Provider and receiving the Environmental Impact Assessment report. A Service provider has subsequently appointed. The project development will commence in the 2011/2012 financial year.

The DVRI High Density Pilot Housing Project had to rolled over as the project development will be completed in the 2011/ 2012 financial year based on the delivery programme.

## 5.2 2011/12 TOTAL OPERATING BUDGET

Table 2 reflects the operating budget after the adjustments to the operating projects have been implemented.

**TABLE 2: 2011/12 OPERATING BUDGET ADJUSTMENT SUMMARY PER REVENUE SOURCE AND EXPENDITURE PER CATEGORY**

	2011/12 APPROVED BUDGET	2011/12 BUDGET ADJUSTMENTS	2011/12 ROLL-OVER ADJ. BUDGET
<b><u>Revenue Per Source</u></b>			
Assessment Rates	(540 381 469)	0	(540 381 469)
Refuse Charges	(173 905 216)	0	(173 905 216)
Sewerage Charges	(180 202 568)	0	(180 202 568)
Trade Effluent	(9 499 304)	0	(9 499 304)
Water Charges	(233 282 971)	0	(233 282 971)
Electricity Charges	(1 142 651 894)	0	(1 142 651 894)
Fire Levy	(39 519 662)	0	(39 519 662)
Fuel Levy	(170 477 000)	0	(170 477 000)
Grants and Subsidies	(966 570 086)	(27 891 778)	(994 461 864)
Fines	(10 656 828)	0	(10 656 828)
Housing Rentals	(105 120)	0	(105 120)
Other Rentals	(12 653 893)	0	(12 653 893)
Income Foregone	19 870 741	0	19 870 741
Other	(193 253 900)	0	(193 253 900)
<b><u>Total Direct Operating Income</u></b>	<b>(3 653 289 169)</b>	<b>(27 891 778)</b>	<b>(3 681 180 947)</b>
<b><u>Expenditure Per Category</u></b>			
Salaries, Wages & Allowances	983 308 134	0	983 308 134
Remuneration of Councillors	28 870 623	0	28 870 623
Debt Impairment	165 450 000	0	165 450 000
General Expenses	642 879 977	0	642 879 977
Operating Projects	356 719 668	27 891 778	384 611 446
Bulk Electricity Purchases	797 856 810	0	797 856 810
Bulk Water Purchases	142 671 029	0	142 671 029
Repairs & Maintenance	242 035 549	0	242 035 549
Finance Costs	93 951 192	0	93 951 192
Depreciation	473 248 010	0	473 248 010
<b><u>Total Direct Operating Expenditure</u></b>	<b>3 926 990 991</b>	<b>27 891 778</b>	<b>3 954 882 769</b>
Transfers To/From Other Reserves	(310 740 545)		(310 740 545)
<b><u>Total Operating Expenditure (Surplus)</u></b>	<b>3 616 250 446 (37 038 724)</b>	<b>27 891 778 0</b>	<b>3 644 142 224 (37 038 724)</b>

## 5.3 2011/2012 OPERATING PROJECTS ADJUSTMENT BUDGET

Table 3 reflects the adjustment to the rolled-over own-funded and unconditional grant-funded operating projects to the available funding. The adjustment has resulted in an increase of R22,3 million to the operating projects budget from R356.7 million to R379.0 million (Refer to "Annexure B" for details).

**TABLE 3: 2011/2012 OPERATING PROJECTS BUDGET ADJUSTMENT**

OPEX PER FUNDING SOURCE	2011/2012	2011/2012	2011/2012
	APPROVED BUDGET	BUDGET ADJUSTMENTS	1st ROLL- OVER ADJ. BUDGET
<b><u>NEW PROJECTS</u></b>			
Own Funds	30 498 353	0	30 498 353
Finance Management Grant	1 450 000	0	1 450 000
Urban Settlement Development Grant	14 212 191	0	14 212 191
Glasgow Partnership	0	264 808	264 808
Human Settlement Development Grant	276 303 348	0	276 303 348
Leiden Platform	0	330 380	330 380
Dept of Water Affairs and Forestry - DoRA	2 830 000	0	2 830 000
Dept of Water Affairs and Forestry - Provincial	12 395 000	0	12 395 000
<b>TOTAL NEW OPEX PROJECTS</b>	<b>337 688 892</b>	<b>595 188</b>	<b>338 284 080</b>
<b><u>ROLLED-OVER PROJECTS</u></b>			
Disaster Mangement Fund	96 999		96 999
Own Funds	18 793 777	(3 308 711)	15 485 066
BCMET	0	604 383	604 383
Dept of Environmental Affairs and Tourism	140 000	0	140 000
Local Government and Traditional Affairs	0	1 256 873	1 256 873
DLGTA	0	5 105 381	5 105 381
European Commission	0	773 115	773 115
Galve	0	733 636	733 636
Dept of Human Settlements	0	11 724 100	11 724 100
Leiden Platform	0	1 209 173	1 209 173
LGH (Local Government Housing)	0	1 476 585	1 476 585
SALAIDA	0	738 298	738 298
SETA	0	1 155 713	1 155 713
Trust Funds	0	254 984	254 984
<b>TOTAL ROLLED-OVER OPEX PROJECTS</b>	<b>19 030 776</b>	<b>21 723 530</b>	<b>40 754 306</b>
<b>TOTAL OPEX PER FUNDING SOURCE</b>	<b>356 719 668</b>	<b>22 318 718</b>	<b>379 038 386</b>

### **5.3.1 COMMENTS ON THE OPERATING BUDGET PROJECTS**

#### **(i) Human Settlement Development Grant**

The completion of the Airport Phase 2 A project of 614 units could not be addressed in the 2010/2011 financial year due to procurement challenges. The appointment of contractors to complete the remaining 81 top structures will be undertaken in the current financial year.

The completion of Tyutyu Phase 1, Ilitha South Project and Dimbaza Phase 2 was delayed due to the signing of the subsidy agreements between the municipality and PDoHS. The projects have since been started and are ongoing and will be completed in the current financial year.

### **6. CHALLENGES**

The following categories of challenges have impacted on the expenditure of projects in the 2010/2011 financial year:

- Litigations
- Environmental Impact Assessments
- Termination of contracts due to poor performance by contractors
- Inefficiencies in the procurement processes
- Institutional political and administrative challenges

In order to address the challenges, the following measures have been put in place:

- The Executive Mayor has established a committee to monitor report and advise on expenditure patterns
- The Accounting Officer has established a monthly programmes and projects monitoring and reporting administrative standing meeting

### **7. STAFF IMPLICATIONS**

None identified at this stage. However, where performance of employees is identified as a factor for the roll-overs, the Accounting Officer is implementing corrective measures.

## **8. FINANCIAL IMPLICATIONS**

8.1 The total amount of rolled-over operating and capital projects funded from own funds and unconditional grants is cash-back by investments and does not have an impact on tariffs.

8.2 The effect of the adjustments is:

- An increase in the 2011/12 Approved Operating Budget from R3.92 billion to R3,95 billion.
- An increase in the Capital Budget from R764,7 million to R820,2 million.

## **9. RECOMMENDATION**

It is recommended that:

9.1 2011/12 operating and capital projects roll-over adjustment budget report be **NOTED**.

9.2 The adjustments in the sum of R22,318,718 to the 2011/12 Operating Budget be approved.

9.3 The adjustments in the sum of R55,552,270 to the 2011/12 Capital Budget be approved.

9.4 The 2011/12 Adjusted Operating and Capital Budget in the sum of R4,769,531,109 as reflected in the table below be approved by Council.

<b>2011/2012 1st OPERATING &amp; CAPITAL ROLL-OVER ADJUSTMENT BUDGET</b>	<b>2011/2012</b>	<b>2011/2012</b>	<b>2011/2012</b>
	<b>APPROVED BUDGET</b>	<b>BUDGET ADJUSTMENTS</b>	<b>1st ROLL-OVER ADJ. BUDGET</b>
<b>Operating Budget</b>	<b>3 926 990 991</b>	<b>22 318 718</b>	<b>3 949 309 709</b>
<b>Capital Budget</b>	<b>764 669 130</b>	<b>55 552 270</b>	<b>820 221 400</b>
<b>Total 2011/2012 Adjustment Budget</b>	<b>4 691 660 121</b>	<b>77 870 988</b>	<b>4 769 531 109</b>

**Z. NCITHA**  
**EXECUTIVE MAYOR**

### **Annexures**

“Annexure “A” – Capital Budget Projects Adjustment Schedule.

“Annexure “B” – Operating Budget Projects Adjustment Schedule.