

TM/2018**2017/18 ADJUSTMENT BUDGET****REPORT OF THE CHIEF FINANCIAL OFFICER****1. PURPOSE OF THE REPORT:**

1.1 To submit adjustment budget for 2017/18 financial year to Municipal Council for approval.

2. BACKGROUND:

2.1 Section 160(2) of The Constitution of the Republic of South Africa, Act 108 of 1996, determines that the function to approve the budget by the council may not be delegated by a Municipal Council.

2.2 This adjustment budget is compiled in line with regulations 23(2) and 23(2) of the Municipal Budget and Reporting Regulations which read as follows:

- Regulation 23(2): "Only one adjustments budget referred to in subregulation (1) may be tabled in a municipal council during a financial year, except when additional revenues contemplated in section 28(2)(b) of the Act [MFMA] are allocations to a municipality in a national or provincial adjustments budget, in which case subregulation (3) applies".
- Regulation 23(3): "If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues".

3. DISCUSSION:

3.1 Section 28(2) of the MFMA paragraph (f) does permit municipality to process adjustment budget to correct any error that may had occurred or to correctly align specific items where required. The adjustment as depicted in the table above was to align and correct errors to ensure the budgeting process is in line with the relevant regulations.

The Municipality has compiled an adjustment budget to realign certain type of revenue sources and expenditure which will allow Municipality to attain a realistic 2017/18 budget.

3.2 Tables below shows realistically anticipated adjustment from the 2017/18 original budget:

3.3 Table 1: Operating revenue summary

Description	Ref	Budget Year 2017/18 R'000		
		Original Budget	Other Adjusts.	Adjusted Budget
R thousands	1	A	8 F	10 H
Revenue By Source				
Property rates	2	80 199	(1 073)	79 126
Property rates - penalties & collection charges		-	-	-
Service charges - electricity revenue	2	124 567	0	124 567
Service charges - water revenue	2	26 979	0	26 979
Service charges - sanitation revenue	2	16 143	(0)	16 143
Service charges - refuse revenue	2	9 969	0	9 969
Service charges - other		1 123	0	1 123
Rental of facilities and equipment		1 813	0	1 813

Interest earned - external investments		1 510	(0)	1 510
Interest earned - outstanding debtors		9 850	(0)	9 850
Dividends received		–	–	–
Fines		25 000	(0)	25 000
Licences and permits		16 500	–	16 500
Agency services		–	–	–
Transfers recognised - operating		77 639	0	77 639
Other revenue	2	4 059	–	4 059
Gains on disposal of PPE		–	–	–
Total Revenue (excluding capital transfers and contributions)		395 350	(1 073)	394 277

Revenue decreased by R5 million before taking into account revenue forgone (Rebates and exemption).

After taking into account revenue forgone, the resulted reduction in revenue is R1 million.

During mid-year assessment, property rates had actual revenue collection of 34% of the annual budget. Therefore, the adjustment was attributable to realistic revenue projections on property rates

Table 2 below shows the summary of increase/decrease in expenditure

Table 2: Operating expenditure summary

Description	Ref	Budget Year 2017/18 R'000		
		Original Budget	Other Adjusts.	Adjusted Budget
			8	10
R thousands	1	A	F	H
<u>Expenditure By Type</u>	-			
Employee related costs		119 752	–	119 752
Remuneration of councillors		6 947	(0)	6 947
Debt impairment		15 000	2 100	17 100
Depreciation & asset impairment		32 000	0	32 000
Finance charges		4 000	(0)	4 000
Bulk purchases		94 595	2 900	97 495
Other materials		30 602	(4 350)	26 253
Contracted services		26 188	(3 600)	22 588
Transfers and grants		–	–	–
Other expenditure		64 468	2 399	66 867
Loss on disposal of PPE		100	(0)	100
Total Expenditure		393 653	(551)	393 102

Table 2 above depict decrease in expenditure by R00.551 million from its original budget of R393 million which is largely derived in other materials and contracted services expenditure. This is composed of the following:

- Expenditure decreased by R0.551 million from its original budget of R393 million which is

- largely derived from other materials and contracted services expenditure
- ▶ Increase in bulk purchases of R2.9 million from its original budget was due to re-alignment of the bulk purchases to a realistic projection. The realistic projection was based on the mid-year assessment outcome.
 - ▶ Purchases of other materials decrease by approximately R4.3 million. The resulted decrease was to re-align certain item which had to comply with mSCOA segment.
 - ▶ Fire breaks expenditure of R2.9 million is moved to other expenditure under repairs and maintenance from other materials.
 - ▶ The major decrease from R3.6 million in contracted services was as result of reduction of IT allocated expenditure. The initial budget for IT infrastructure was based on the expected outflow resulting from the appointment of the services provider who will run month to month IT operations. During the mid-year assessment, the procurement process for the IT still in progress and as result, the anticipated expenditure on IT was reduced in order to have realistic budget expenditure.
 - ▶ Other expenditure increased by R2.3 million from its original budget of R64 million. The increase was attributed from the re-allocation from contracted services to other expenditure as eluded above.

Table 3: Capital Projects summary

PROJECT DESCRIPTION	MIG registered amount	Balance on project	Approved 16/17 roll-over budget	Approved 17/18 budget	Adjusted budget	Revised 17/18 budget
Upgrade Sunfa stadium	16 781 049.81	7 219 767	3 437 517	5 117 662	0.00	7 219 767
Paving of bus route: Rapatokwane	10 567 950.00	6 588 862	6 786 483		0.00	6 530 348
Storm water Marikana Street (X6)	9 871 287.91	5 643 631	4 776 000		0.00	4 493 326
WWTW Pienaarsrivier	7 330 000.00	7 330 000		5 000 000	(4 563 152)	436 848
WWTW Masakhane	6 819 069.00	6 819 069			467 690	265 000
Widening Mile street bridge	5 100 000.00	5 100 000		5 100 000	(4 636 848)	463 152
Storm Water – Spa Park	8 500 000.00	8 500 000		4 007 000	(4 007 000)	R 0.00
Road Paving X 4, 6, 7, 8	22 750 000.00	22 500 000		5 764 138		5 580 358
PMU costs		R 0.00		1 315 200		1 315 205
TOTAL			15 000 000	26 304 000	12 739 309	26 304 000

- ▶ There has been major adjustments made on capital projects. MIG projects have been adjusted by shifting funds within the MIG projects with a resulted affect being zero.
- ▶ As at June 2017, Municipality had unspent amounting to R12 million and application for rollover was applied with no success.
- ▶ The shifting of project was as result of roll-over application which was declined. The project highlighted in yellow on the above table are affected. It should be noted that, all project except Storm water – Spa park are still on design stage.
- ▶ Additional roll-over applied was for Integrated National Electrification Program (INEP) amounting to R11 million. No adjustment will be made on INEP project, except that Municipality will fund the project internal.

4

FINANCIAL IMPLICATIONS

4.1	<p>The financial implications are summarized as follows:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Operating revenue has been adjusted downward by R5 Million before revenue forgone (rebate and exemption) <input type="checkbox"/> Operating expenditure has been adjusted downwards by R00.551 Million <input type="checkbox"/> Capital expenditure adjustment have zero affect in terms of financials other than shifting funds within the projects
5.	LEGAL IMPLICATIONS:
5.1	Compliance with section 28 of the MFMA and paragraphs 23(2) and 23(3) of the Municipal Budget and Reporting Regulations.
6.	RECOMMENDATIONS
6.1	That Council approves the operational and capital adjustment budget for the 2017/18 financial year (As contained in the main tables 1 to table 10)
6.2	That Council approves the adjustment of revenue and expenditure in order to have realistically anticipated 2017/18 budget
6.3	That Council approves budget amendments necessary to correct errors in the annual budget
6.4	Directs that the Accounting Officer adheres to section 22 of the Municipal Finance Management Act, read with paragraph 24(1) of the Municipal Budget and Reporting Regulations. The regulations require the municipal manager to submit the adjustment budget and supporting documentation to National Treasury and the Provincial Treasury within ten (10) working days after tabling to Council, in both printed and electronic copies.