

***ITEM:***

***REPORT OF THE CHIEF FINANCIAL OFFICER***

**2009/2010 BUDGET ADJUSTMENT**

**PURPOSE OF THE REPORT**

The purpose of the report is to obtain Council's approval for the Budget Adjustment of the 2009/2010 financial year.

**STATUTORY/LEGAL REQUIREMENT**

Section 28 of the MFMA: A municipality may revise an approved annual budget through an adjustments budget.

Section 17 of the MFMA: An annual budget must be in a schedule in the "prescribed format".

Circular 28 prescribes the format of the Budget & Adjustment Budget until such time that the new Budget & Reporting Regulations is fully implemented.

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

Regulation 23 of the new Budget & Reporting Regulations: An Adjustment Budget may be tabled after the Mid-Year Budget & Performance Assessment has been tabled to Council, but not later than 28 February. The Mid-Year Report is also submitted to this Council for noting. Only one Adjustment Budget is allowed annually, unless in special cases of additional revenue or after unforeseeable and unavoidable expenditure.

**BACKGROUND, EXPOSITION, FACTS AND PROPOSALS**

Council approved the 2009/2010 Annual Budget per item A264/2009 dated 29 May 2009. A mid year assessment was carried out based on the actual figures for the period ending 31 December 2009. The Budget Adjustment is required due to the following:

- conditional grants received
- decrease in revenue projections
- increases and savings in operating expenditure
- projects rolled over from the previous year
- adjustments to the 08/09 IDP

The Adjustment Budget is discussed as follows:

### **Operating Revenue**

Council approved budgeted revenue of R 99,376,202.

During the financial year, Council received conditional grants that were not provided in the budget. The expenditure on these grants must be accommodated in the current financial year.

The following conditional grants were received during the year:

1. LIBSA Grant (Planning & Economic Development Department)

Certain grants rolled over from the previous financial year should be utilised during the current year for which the income has to be disclosed according to GRAP & Treasury requirements and therefore the budgeted income will increase with the following grants:

1. Municipal Systems Implementation Grant (Office of the Municipal Manager)
2. Finance Management Grant (Budget & Treasury Office & Office of the Municipal Manager)
3. VUNA Award 05/06 (Planning & Economic Development Department)
4. Office of the Premier Grant (Planning & Economic Development Department)
5. Integrated Transport Grant (Planning & Economic Development Department)
6. IT MSP Grant (Corporate Support & Shared Services Department)
7. CPWP Grant (Infrastructure Development Department)
8. Mayor's Bursary Grant (Office of the Executive Mayor)
9. Disaster Grant (Disaster Division in Office of the Municipal Manager)
10. Fire Fighting Grant (Disaster Division in Office of the Municipal Manager)

Interest received on current accounts and investments was overstated and has to be adjusted downward by R 2,285,000 to accommodate the reduction in the interest rate and subsequent decrease in interest received on current account and external investments.

The revenue from the Abattoir has to be adjusted downward by R 216,870 due to the lessee cancelling their lease at the beginning of September 2008 and has since not yet been replaced, thus no rental is earned on the vacant portion of the building. The throughput at the abattoir is also lower than projected on slaughtering and subsequently tripe and freezing due to, amongst others, the loss of major clients. The abattoir, for the first 6 months ending 31 December 2009, has incurred an operating loss of R 950,833 and is thus not sustainable. As a trading entity, the abattoir should not be running at an operating loss.

The total adjustment to revenue is an R 3,772,963 increase bringing the total budgeted revenue after adjustment to R 103,149,165.

Please see explanations attached after Annexure A.

### **Operating expenditure**

Council approved an operating budget amounting to R 70,818,796 excluding the IDP operating projects. The total downward adjustment to operating expenditure is R 2,109,645 bringing the total budgeted expenditure after adjustment to R 68,709,154.

The savings in operating expenditure can be utilised partly to fund any increase in the 09/10 IDP and the remainder will be utilised in the 10/11 IDP.

The increase in the personnel expenditure is due to the implementation of the Collective Agreement for annual salary increase of 13% for 2009/2010 year effective 1 July 2009 versus the 10% annual increase that was approved in the 2009/2010 Budget. The reason for savings in personnel budgets in certain departments was due to the various vacancies that existed in these departments for the majority of the budget year under review.

Please see explanations attached after Annexure B.

### **Projects rolled over from prior years**

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”*

An amount of R 25,989,751 was rolled over from the 08/09 budget year and this was not included upon approval of the 09/10 budget. During the mid-year review changes were also identified on some of these projects. The unspent amount including savings identified (still to be allocated) to be approved by Council is R 25,989,751. The projects are in the process of being implemented and the majority should be completed by the end of the financial year. R 11,593,802 (44.61%) of these funds has already been spent in the current year up to 11 February 2010. Attached per Annexure C (per priority) and E (detailed) is the list of projects that were rolled over from previous financial years plus savings that has been identified on these projects.

The savings identified on roll over project budget not allocated to new project proposals (if Council so decides) will be utilised to fund the increase in the 09/10 IDP or otherwise for utilisation in the 2010/2011 IDP.

The total adjustment to these projects is R 0 (if the savings is utilised) bringing the total budgeted Roll-Over after adjustments to R 25,989,751.

My recommendation though, if the conditions allows, would be to use the CPWP Funds rolled over from 2003 to fund the increases in the Infrastructure Roll-Over Projects. The Public Works Department has been approached in the past about utilisation of these roll over funds, but no response was received or co-operation from other provincial departments. These funds should be utilised on Infrastructure projects or transferred back to Treasury, because the department who

transferred the funds no longer exists. The total infrastructure project increases requested amounts to R 577,104 of which R 547,884 can be utilised from CPWP, if allowed, and the remaining R 29,220 from savings.

If this is approved, then the savings remaining for new proposals submitted is R 2,140,167.

Please see explanations attached after Annexure C followed by a detailed breakdown per project in Annexure E.

### **Projects per the 2009/10 SDBIP**

Council approved an IDP budget amounting to R 29,305,000. The total adjustment to these projects is R 0 (if the savings is utilised) bringing the total budgeted IDP after adjustments to R 29,305,000.

If this is approved, then the savings remaining for new proposals submitted is R 2,558,397.

Please see explanations attached after Annexure D followed by a detailed breakdown per project in Annexure F.

### **New Municipal Budget & Reporting Regulations requirements**

The new Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009 was effective for high capacity municipalities from 1 July 2009 and will be effective for medium and low capacity municipalities (like Waterberg District Municipalities) on budgets prepared from 1 July 2010 (meaning the 2010/2011 budget to be tabled by 31 March 2010).

Certain sections of the Budget Regulations do however apply to all municipalities from 1 July 2009, namely regulation 3, 12, 13, 23 and chapter 4, 5 and 6. The summary of these sections are as follows:

Regulation 4: A budget steering committee must be established consisting of the Cllr for Budget & Treasury Portfolio, Municipal Manager, CFO, S57 managers and the Divisional Manager Budget & Reporting. Currently, WDM has no official committee, but budget matters are discussed at each Management Meeting where all above members are present except the Chairperson of Budget & Treasury Portfolio, but financial / budget reports are submitted to each Budget & Treasury Portfolio Committee meeting.

Regulation 12: WDM has no relief, charitable, trust or other funds, thus this section is not applicable.

Regulation 13: All capital projects must be approved by Council. If a new project is added, the MM must make this public within 10 days after Council approval. Capital projects of which the total projected cost is below 5% of the municipality's revenue where the total revenue of WDM does not exceed R 250 million, may be approved by Council individually or as part of a consolidated capital program. Thus, all new projects that are submitted for consideration through the savings identified will be considered in terms of this section.

Regulation 23: An Adjustment Budget may be tabled after the Mid-Year Budget & Performance Assessment has been tabled to Council, but not later than 28 February. The Mid-Year Report is also submitted to this Council for noting. 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 is roll-overs on projects.

Chapter 4 Time Provisions: No time extension for the submission of the Budget of Adjustment Budget or In-Year Reports is required by WDM.

Chapter 5 Unforeseen and Unavoidable Expenditure: None of these expenditures have been incurred in the current budget year.

Chapter 6 Unauthorised, Irregular or Fruitless & Wasteful Expenditure: Section 32 expenditure incurred in this financial year still being investigated by MM and Legal Services to be reported to Council for consideration.

### **New Project Proposals**

New project proposals have been submitted throughout the budget year by numerous departments. These projects can be considered from the savings that has been identified on various projects in the roll over or 09/10 IDP.

This is allowed in terms of Regulation 13 of the Budget Regulations (and section 19 of the MFMA) as explained in above summary of new Budget Regulations.

The total savings identified and given above directives taken by Council is R 4,698,564. If CPWP cannot be utilised for Infrastructure Project requested increases and the full adjustment has to be funded from savings, then the new amount available for new project proposal would be R 4,150,680.

The total value of project proposals submitted is R 4,107,600.

### **STAFF IMPLICATIONS**

None

### **FINANCIAL IMPLICATIONS**

See Annexures

### **OTHER PARTIES CONSULTED**

Section 57 managers  
Divisional Managers

### **ANNEXURES**

Annexure A – Revenue per revenue source plus explanations for adjustments

Annexure B – Operating expenditure per vote plus explanations for adjustments

Annexure C – 08/09 IDP roll over plus explanations for adjustments

Annexure D – 09/10 IDP plus explanations for adjustments

Annexure E – Detailed list of roll over projects

Annexure F – Detailed list of 09/10 IDP projects

Annexure G – New project proposals for consideration out of savings

## **AUTHORITY**

Municipal Finance Management Act No 56 of 2003 (MFMA)

MFMA Circular 28

MFMA Circular 42

Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009

## **RECOMMENDATIONS**

That:

1. The Adjustment Budget for the 2009/2010 budget year reported by the Chief Financial Officer, as contained in the agenda, be approved.
2. The requirements of Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009 be noted for implementation in the 2010/2011 Budget.
3. The Council approves the following new project proposals from the available savings that has been identified:
  - Team Building Exercise (R 300,000)
  - Modimolle (R 400,000) & Bela Bela (R 400,000) Security Surveillance Cameras
  - 2010 World Cup Coordinating Committee (R 550,000)
  - Implementation of WDM Agricultural Land Use Policy (R 650,000)
  - Waterberg Biosphere Reserve Development Strategy (R 750,000)
  - Golf and Life Skills Development for the Youth (R 207,600)
  - Skills Development Strategy & SMMEs (R 350,000)
  - Safety & Security Summit (R 250,000)
  - Service Delivery Summit (R 250,000)
4. The savings remaining, after approval of the above projects, as well as any other savings identified in the remaining 2009/2010 budget year, be utilised in the 2010/2011 IDP.
5. The Manager Infrastructure Development use the roll-over grant funding of CPWP to fund the additional cost on Infrastructure Projects submitted.
6. The Northam Sewer Budget Increase Adjustment of R 125,796 be rejected.
7. The Lephalale Disaster Centre Budget Increase Adjustment of R 73,668 be increased to R 101,440, but the matter be investigated for Irregular Expenditure and be reported back to Council.

8. The Rust De Winter Budget Increase Adjustment of R 364,140 for the Contractor be rejected, but replaced with a Budget Increase Adjustment of R 78,628 for the Consultant, but the consultant fees be investigated to determine if the fees are reasonable.
9. The Annexure B operating budget increase on the Budget & Treasury Office be increased from R 172,181 to R 202,181.
10. The Annexure B operating budget savings on the Corporate Support & Shared Services Department be decreased from R 272,720 to R 92,720.
11. The Annexure B operating budget increase on the Infrastructure Development Department be increased from R 159,465 to R 185,465.
12. The total savings on Annexure B Operating Expenditure Budget be decreased from R 2,345,645 to R 2,109,645.