

**ITEM :**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**2015/2016 SECOND BUDGET ADJUSTMENT**

**PURPOSE OF THE REPORT**

The purpose of the report is to obtain Council's approval for the 2<sup>ND</sup> Budget Adjustment of the 2015/2016 financial year.

**STATUTORY/LEGAL REQUIREMENT**

**Municipal adjustments budgets**

**MFMA Section 28** states that:

*28. (1) A municipality may revise an approved annual budget through an adjustments 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, 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 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 the council;*

*(f) may correct any errors in the annual budget; and*

*(g) may provide for any other expenditure within a prescribed framework.*

MFMA section 28(b) means that we can only increase existing spending programmes, not add new ones, e.g. projects.

*(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 budget;*

*(c) an explanation of the impact of any increased spending on the annual budget and 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 except when required in terms of a financial recovery plan.*

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

## **STATUTORY/LEGAL REQUIREMENT** *(continued)*

**National Treasury Circular 66** dated 11 December 2012 requires that the Auditor General must from 2012/2013 express an opinion in relation to non-cash items as it relates to unauthorised expenditure resulting from overspending.

**MBRR paragraph 23** states that:

*An Adjustment Budget may be tabled after the Mid-Year Budget & Performance Assessment has been tabled to Council, but not later than 28 February. 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 are roll-overs on projects.*

**Only** the council may authorise instances of unauthorised expenditure, and *council must do so through an adjustments budget*. This is the rationale for the provisions in **regulation 23(6) of the Municipal Budget and Reporting Regulations (MBRR)** governing when council may authorise unauthorised expenditure in an adjustments budget.

**Section 160(2) of the Constitution** provides that a council may not delegate the approval of budgets or the imposition of rates, taxes, levies and duties. In other words, *only the council may make decisions related to the raising of municipal revenues and approving (or authorising) the spending of those revenues through the budget or an adjustments budget*.

### **Unforeseen and unavoidable expenditure**

**MFMA section 29.** (1) *The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.*

(2) *Any such expenditure—*

- (a) must be in accordance with any framework that may be prescribed;*
- (b) may not exceed a prescribed percentage of the approved annual budget;*
- (c) must be reported by the mayor to the municipal council at its next meeting; and*
- (d) must be appropriated in an adjustments budget.*

(3) *If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and section 32 applies.*

### **Unspent funds**

**MFMA section 30.** *The appropriation of funds in an annual or adjustments budget lapses to the extent that those funds are unspent at the end of the financial year to which the budget relates, except in the case of an appropriation for expenditure made for a period longer than that financial year in terms of section 16(3).*

**MFMA section 22.** *Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must*

*(b) submit the annual budget—*

- (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury;*

**STATUTORY/LEGAL REQUIREMENT** *(continued)*

**Municipal Budget & Reporting Regulations:**

**“supporting documentation”, in relation to –**

- (a) an annual budget of a municipality, means documentation referred to in section 17(3) of the Act;
- (b) an annual budget of a municipal entity, means documentation that informs the annual budget;
- (c) an adjustments budget of a municipality, means documentation referred to in section 28(5)(d) of the Act; or
- (d) an adjustments budget of a municipal entity, means documentation that informs the adjustments budget.

**25. (1)** A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in regulation 21 before approving the adjustments budget.

In terms of MBRR section 27 (2) (b) you must also submit the adjusted SDBIP 10 working days after council approved it in terms of MFMA section 54 (1) (c):

**Submission of approved adjustments budget and other documents**

**27. (1)** The municipal manager must comply with section 28(7) of the Act read together with section 24(3) of the Act within ten working days after the municipal council has approved an adjustments budget.

(2) When submitting an adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act read together with section 24(3) of the Act, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –

- (a) the supporting documentation within ten working days after the municipal council has approved the adjustments budget;
- (b) the amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of section 54(1)(c) of the Act; and

**STATUTORY/LEGAL REQUIREMENT** *(continued)*

**Municipal Budget & Reporting Regulations:**

**Authorisation of unforeseen and unavoidable expenditure**

**71.** (1) The mayor of a municipality may authorise expenditure in terms of section 29 of the Act only if –

- (a) the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and
- (b) the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the Act to authorise the expenditure may –
  - (i) result in significant financial loss for the municipality;
  - (ii) cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
  - (iii) lead to loss of life or serious injury or significant damage to property; or
  - (iv) obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

(2) The mayor of a municipality may not authorise expenditure in terms of section 29 of the Act if the expenditure –

- (a) was considered by the council, but not approved in the annual budget or an adjustments budget;
- (b) is required for –
  - (i) price increases of goods or services during the financial year;
  - (ii) new municipal services or functions during the financial year;
  - (iii) the extension of existing municipal services or functions during the financial year;
  - (iv) the appointment of personnel during the financial year; or
  - (v) allocating discretionary appropriations to any vote during the financial year; or
- (c) would contravene any existing council policy; or
- (d) is intended to ratify irregular or fruitless and wasteful expenditure.

## **STATUTORY/LEGAL REQUIREMENT** *(continued)*

### **Municipal Budget & Reporting Regulations:**

#### **Monetary limits on unforeseen and unavoidable expenditure**

**72.** The amount of expenditure that a mayor of a municipality may authorise in terms of section 29 of the Act is limited to –

- (a)** 5% of the municipality's own revenue in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;
- (b)** the greater of R 5 million or 4% of the municipality's own revenue in the case of a municipality with approved total revenue in its current annual budget greater than R250 million but not exceeding R500 million; and
- (c)** R15 million in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

Thus, section 71 means that unforeseen adjustments could not have existed at original budget time and they should not have been projects that had been considering during the original budget but not approved.

Adjustments may also not be made for new appointments or discretionary allocations or to contravene an existing council policy.

In terms of Section 72, our own revenue is only interest and abattoir, thus 3% of R **153 669 000 = R 5 254 000** for the current financial period.

In terms of MFMA section 54 (1) (c) the municipality must make revisions to the SDBIP based on the mid-year performance assessment (MFMA s 72) and submit to council for approval following approval of the Adjustment Budget:

#### ***Budgetary control and early identification of financial problems***

*54. (1) On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must—*

*(c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;*

*(3) The mayor must ensure that any revisions of the service delivery and budget implementation plan are made public promptly.*

The new Municipal Budget and Reporting Regulations, Notice 393 of 2009, Government Gazette no 32141 dated 17 April 2009 is effective for budgets prepared from 1 July 2010.

## **BACKGROUND, EXPOSITION, FACTS AND PROPOSALS**

Council approved the 2015/2016 Annual Budget in Item **A248/2015** on 28 May 2015. A mid year assessment was carried out based on the actual figures for the period ending 31 December 2015, resulting in Council approving the first adjustment budget in Item **A314/2016** on 29 February 2016. A second Budget Adjustment is required mainly due to the following:

- Unbudgeted Auditor General's audit fees
- Transfer of Thabazimbi's MIG to WDM
- Virements and savings in operating and capital expenditure
- Adjustments to the 15/16 IDP

The 15/16 Adjustment Budget for the approval of projects rolled over from the previous year in terms of MBRR section 23 was approved by Council on **7 August 2015** in Council item **A257/2015**.

The 2<sup>nd</sup> Adjustment Budget is discussed as follows:

### **Operating Revenue**

Council approved budgeted revenue of **R 153 669 000** in Item **A248/2015** on 28 May 2015, as well as an adjusted budgeted revenue of R153 369 000 in Item **A314/2016** on 29 February 2016.

The National Department of Cooperative Governance has re-allocated Thabazimbi's MIG of **R29 172 000** to WDM, and this has now been Gazetted (No. 39746) and published by the National Treasury.

The IDP roll over budget from 14/15 that was approved by Council in August 2015 is also included in this adjusted budget.

The total adjustment to revenue is a R 29 172 000 increase bringing the total budgeted revenue after adjustment to R 182 541 000.

### **Operating expenditure**

Council approved an operating expenditure budget amounting to R 128 559 000 excluding the IDP operating projects (R 167 008 000 including IDP operating projects). After a mid-year assessment of operating expenditure, an adjustment of R120 000 to the original budget was approved by Council in Item **A314/2016** on 29 February 2016. Special care was taken to manage expenditure in order to alleviate the cash flow constraints anticipated in the 15/16 and 16/17 budget years.

The Auditor General has commenced with the audit of 2015/16 financial period earlier than anticipated, resulting in the Municipality having to bear the cost of audit in the current financial year. An adjustment of R650 000 is required for the purpose of this unforeseen expenditure.

The total increase to operating expenditure is R650 000 bringing the total budgeted expenditure after adjustment to R 167 778 000 including the IDP operating projects (R 104 995 000 excluding IDP operating projects). Excluding IDP operating expenditure the budgeted operating expenditure is increased by R650 000. Increase of R650 000 will result in an increase of the Operating Deficit.

## BACKGROUND, EXPOSITION, FACTS AND PROPOSALS *(continued)*

### **2016/17 Current Commitments approved on the 2015/16 IDP MTREF**

There are no current commitments for the 16/17 budget as all multi-year projects are to be completed in 15/16.

### **STAFF IMPLICATIONS**

None

### **FINANCIAL IMPLICATIONS**

See calculations / explanations above and attached annexures below

### **OTHER PARTIES CONSULTED**

Section 57 managers  
Divisional managers  
Project managers

### **ANNEXURES**

Schedule B - Detailed Budget Schedules in terms of the National Treasury MBRR Template

Annexure A – IDP Project listing with proposed adjustments and revisions to SDBIP forecasts

Annexure B – Individual income and expenditure adjustments

### **AUTHORITY**

Municipal Finance Management Act No 56 of 2003 (MFMA)

MFMA Circulars

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

### **RECOMMENDATIONS**

That:

1. The report by the Chief Financial Officer regarding the 2015/2016 2<sup>nd</sup> Adjustment Budget be approved.

- Council approve the 2<sup>nd</sup> Adjusted Budget for the 2015/2016 budget year as contained in the agenda as follows:

	ORIGINAL	ADJUSTED	2 <sup>ND</sup> ADJUSTMENT
Operating Revenue	R153 669 000	R153 369 000	R182 541 000
Operating Expenditure (Audit Fees of R650 000)	R128 559 000	R128 679 000	R129 329 000
Capital Projects (Transfer of R30m TBZ MIG to WDM)	R35 238 273	-	R64 410 273

- Council approve the revised SDBIP project spending forecasts for the 2015/2016 budget year as contained in the agenda.
- The 2015/2016 2<sup>nd</sup> Adjustment Budget be submitted to National and Provincial Treasury in printed and electronic formats within 10 working days after Council approval in compliance with MFMA section 22(b)(i) and MBRR section 27(2)(a) & (b).
- The budget & SDBIP adjustments be made public in compliance with MFMA section 54(3).