

**ITEM :**

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

### **2016/2017 BUDGET ADJUSTMENT**

#### **PURPOSE OF THE REPORT**

The purpose of the report is to obtain Council's approval for the Budget Adjustment of the 2016/2017 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 9% of **R130 320 800 = R11 554 800** 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 2016/2017 Annual Budget in Item **A342/2016** on 31 May 2016. A mid-year assessment was carried out based on the actual figures for the period ending 31 December 2016. The Budget Adjustment is required mainly due to the following:

- Re-allocation of Thabazimbi MIG to Waterberg District Municipality
- Decrease in abattoir revenue projections
- Decrease in MIG commission projections
- Virements and savings in operating expenditure
- Adjustments to the 16/17 IDP

The 16/17 Adjustment Budget for the approval of projects rolled over from the previous year in terms of MBRR section 23 was approved by Council on 24 October 2016 in Council item **A023/2016**.

The Adjustment Budget is discussed as follows:

### **Operating Revenue**

Council approved budgeted revenue of **R120 320 800**. During the 2016/17 financial year, **The National Department of Cooperative Governance has re-allocated Thabazimbi's MIG of R28 714 000 to WDM, and this has already been Gazetted (No. 40351) and published by the National Treasury.**

The abattoir performance has declined during the first six months of the current 16/17 budget year due to WDM losing clients to the new privately owned Abattoir in Mookgophong. Therefore the revenue is lower than anticipated, however the corresponding variable operating expenditure directly related to service delivery continues to increase year on year. It is therefore necessary to decrease the revenue by R600 000 in order to be in line with the current challenges.

The IDP roll over budget from 15/16 that was approved by Council in August 2016 is also included in this adjusted budget.

The total adjustment to revenue is an increase of R28 114 000 bringing the total budgeted revenue after adjustment to R 148 434 000.

### **Operating expenditure**

Council approved an operating expenditure budget amounting to R142 956 927 excluding the IDP operating and capital projects (R153 800 927 including IDP operating & capital projects). Special care was taken to manage expenditure in order to alleviate the cash flow constraints anticipated in the 16/17 and 17/18 budget years.

In the original 16/17 Budget an annual salary increase of 7.6% for both employees and councillors was budgeted but only 6% for employees and 4% for councillors was implemented in terms of SALGA Collective Agreement, resulting in savings on employee cost. The total adjusted 16/17 personnel budget includes budgets for provisions, skills development levy, workmen's compensation and actuarial valuations. The two additional permanent MMC's extra expenditure will be covered by the current period to date savings on personnel and councillors costs.

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

The major operational expenditure budget adjustment is on the relocation of firefighters from Local Municipalities to the District Municipality totalling **R682 871** which was not budgeted for in the 2016/2017 original budget. However, this shortfall is absorbed by the savings on the total employee costs votes, as well as a savings on various operational expenditure votes.

Therefore net operating expenditure would remain the same resulting in the total budgeted expenditure after adjustment being R153 800 927 including the IDP operating & capital projects (R142 956 927 excluding IDP operating projects). Excluding IDP operating expenditure the budgeted operating remained the same as the original budget.

### **Projects rolled over from prior years & Projects on the 2016/17 IDP**

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”*

MBRR paragraph 23 states that:

*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.*

In terms of Circular 54 and MFMA section 28(b) no new projects may be added during an Adjustment Budget but Council may consider requests that will be adding to / removing from existing projects.

An amount of **R61 546 813** was rolled over from the 15/16 budget year and this was not included upon approval of the original 16/17 annual budget. During the mid-year review changes were identified on some of these projects.

### **The following projects have been rolled over from 2015/16 financial period:**

#### **1. Uncompleted and committed projects**

UE041	WEDA	R1 698
979		
UE054	Coordination of SPLUMA	R 442
914		
UE038	Tourism and SMME funds	<u>R 96</u>
<u>660</u>		
		<b>R2 238 553</b>

#### **2. Savings**

CO037	Training of Ward Committees	<u>R 144</u>
<u>800</u>		
		<b>R 144</b>

**800**

#### **3. MIG Projects**

RS046 Thabazimbi Waste Water Treatment	R53 830
549	
Modimolle LM Projects (Retention Fees)	R 797 714
MWIG Projects for 3 LM	<u>R 4 535</u>
<u>197</u>	
	<b>R59 163</b>
<b>460</b>	
<b>Total</b>	<b><u>R61 546 813</u></b>

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

An amount of R 61 546 813 was recommended to be rolled over from the 15/16 budget year to the 16/17 budget year and this was not included in the approval of the original 16/17 budget approved in May 2016 as the exact amount of the roll-over could not be determined before 30 June 2016. This was the unspent amount of the 15/16 IDP. Attached per Annexure A, which shows detailed project list and projects that were be rolled over from previous financial year. The total final budget for 16/17 after roll-overs was R72 390 813 of which R30 294 743 (41.85%) was spent by 31 December 2016. An amount of R150 000 which was budgeted for work study has been reallocated to IT equipment in order to cater for the evolving IT requirements.

Savings declared on roll over projects are to be utilised for training of Ward Committees.

The list of projects detailing all the adjustments is attached as **Annexure A**.

Motivations for each project amendment was required in terms of MFMA section 28 (5) (a) - (d) and MBRR section 25 (1) as specified above in the Legal Requirement section, but since all of the above changes are immaterial or relate to a correction of capex in the original budget, there is no motivations attached to this item.

### **2017/18 Current Commitments approved on the 2016/17 IDP MTREF**

There are no current commitments for the 17/18 budget as all multi-year projects are to be completed in 16/17.

### **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 2016/2017 Adjustment Budget be noted.
2. Council approve the Adjusted Budget for the 2016/2017 budget year as contained in the agenda.
3. Council approve the revised SDBIP project spending forecasts for the 2016/2017 budget year as contained in the agenda.
4. The 2016/2017 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).
5. The budget & SDBIP adjustments be made public in compliance with MFMA section 54(3).