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BUDGET AND TREASURY

TO: THE MUNICIPAL MANAGER

FROM: THE CHIEF FINANCIAL OFFICER

DATE: 2014-02-24

RE: ADJUSTMENT BUDGET: 2013/2014

BACKGROUND:

Regulation 23 of the Municipal Budget and Reporting Regulations provides, inter alia for the following:

“An adjustment budget may be tabled in the Municipal Council at any time after the Mid-year Budget and Performance Assessment has been tabled in the Council, but not later than 28 February of each year. Furthermore, except under certain circumstances only one adjustment budget may be tabled in Council during a financial year.”

With reference to MFMA Circular 70 Municipalities are urged to take cognisance of the cost containment measures as per National Treasury Instruction 01 of 2013/2014. Municipalities must eliminate waste, reprioritise spending and ensure savings on the following focus areas:

- Consultancy fees;
- No credit cards;

- Travel and related costs;
- Advertising;
- Catering and events;
- Accommodation;

Adjustments had to be made in terms of MFMA Circular 70 and the cost containment measures issued by National Treasury, to take into account the priority of spending in terms of service delivery. Available savings had to be allocated to priority where items were under budgeted for in the original budget for the 2013/2014 financial year. Income for the year was less than anticipated due to the current economic situation and expenditure items were under budgeted for.

As part of the adjustment budget process the organogram for the year was reviewed and certain positions had to be created to ensure compliance with National Treasury Regulations and Guidelines and matters raised during the Auditor-General's report on the 2012/2013 financial year. Positions that were budgeted for but not filled yet must be frozen until the end of the financial year as there are service delivery matters that must be addressed towards the end of the financial year. The cash flow is under immense pressure and there is no room for additional expenditure not budgeted for.

EXECUTIVE SUMMARY ON THE 2013/2014 ADJUSTMENT BUDGET: JANUARY 2014

The following are the reasons for this adjustment:

1. Expenditure:

a. Employee related costs:

- i. Budgeted positions on the organogram that were not filled during the financial year resulted in a decrease of R15 707 478. The municipality had to take the cash flow into account and hence no positions can be filled until the end of the financial year. However critical positions must be filled such as:

1. Assistant Asset Manager and Asset Control Practitioner to ensure the establishment of the asset management unit which is critical for the management of the Municipalities assets. The cost of the positions will be R215 000 and it will be funded from the remaining portion of the FMG Grant.
 2. The budgeted positions under water, sanitation, public safety and internal audit be adjusted according to the financial position of the municipality to an amount not exceeding R600 000.
- b. *Councillor remuneration:*
- i. The councillor's remuneration was decreased with R802 018 as a result of the upper limits that was 5% across the board for all councillors and the original budget was 7.5%.
- c. *Bad debts:*
- i. The provision for bad debt was decreased with R28 126 610 which indicates that we have to implement the Revenue Enhancement Strategy and apply councils policies on Debt Collection and Credit Control.
- d. *Repairs and maintenance:*
- i. Additional funding was allocated for repairs and maintenance of R1 489 815 as a result of theft and damage to asset infrastructure.
- e. *Interest:*
- i. The finance costs has been increased with R112 881 due to the Nedbank Loan that was incurred to finance the Rand Water pipeline.
- f. *Bulk purchases:*
- i. The anticipated costs from the purchase of bulk water resulted in an increase of R10 095 622 due to under budgeting.
 - ii. The year to date expenditure on the purchase of bulk electricity also required an additional R26 062 924 due to under budgeting.
- g. *Contracted services:*
- i. The insurance and security services was decreased by R2 296 164 as these items where over budgeted for.

h. *Grants and subsidies:*

- i. The equitable share allocation allocated to indigents and income foregone was increased with R8 089 268.

i. *General expenditure:*

- i. General expenditure items were decreased with R2 753 682 and it is as a result of saving on non-essential items that were identified.

2. Revenue:

a. *Property tax:*

- i. Additional revenue was generated from Property Rates than budgeted for and that resulted in an increase of R15 732 720.

b. *Service charges:*

- i. Revenue from water, electricity, sewerage and refuse was less than anticipated due to the current economic circumstances and the debtors payment ratio not at the required funding level of 75%. This resulted in a decrease of R19 895 901 on anticipated revenue.

c. *Rental of facilities:*

- i. Rental of facilities decreased with R1 686 021 as a result of the economic situation.

d. *Interest – investments:*

- i. The share price dropped over the last financial year and this resulted in a decrease of R294 575.

e. *Interest – Debtors:*

- i. Consumers are cash strapped and can't afford to settle all their debts and the interest on debtor decreased with R531 404.

f. *Fines:*

- i. The number of traffic offences being paid and prosecuted decreased and an adjustment of R623 352 was required.

g. *Licences and permits:*

- i. Lesser income was received for the issuing in terms of permits for abnormal loads, temporary permits by dealers and this required a decrease of R652 430.

h. *Agency services:*

- i. The income from licences and permits increased drastically due to consumers from other areas outside our boundaries renewing their licences at the Municipality. An increase of R4 253 948 was done based on the projected income till the end of June 2014.

i. *Other income;*

- i. Income from other sources required was decreased with R138 426.

3. Capital contributions:

- a. No adjustments were required to capital projects.

4. The above-mentioned adjustments will have no effect on the provision of basic services but is purely done in terms on the cost containment measures as per the MFMA Circular 70.

5. There will be no effect on the service delivery agreements or medium term revenue and expenditure framework or on the long term financial sustainability.

RECOMMENDATIONS

It is recommended **that**:

1. The mid-year budget adjustment for the 2013/2014 financial year be noted;
2. The attached adjustments to the 2013/2014 Operational Budget be approved;
3. In light of the financial assessment and forecasting of figures on the annual budget based on the first seven months of the financial year under review an adjustment budget for the 2013/2014 is required and is submitted to the Council for approval.
4. The revenue and expenditure for the financial year 2013/14 be revised in an adjustment budget for the various votes to reflect the additional revenues and to

utilize the projected savings on expenditure among the different votes to allow for expected over expenditure.

5. Operational requirements for effective service delivery programmes and related cost centres budget adjustment be approved in respect of sustaining creation of job opportunities, and such report be submitted for council consideration by not later than end of February 2014 in accordance with legislation prescripts.
6. The executive summary of the Operational Budget for 2013/2014 be approved as follows:

Operational income	-	R288,165,442
Operational expenditure	-	<u>R288,193,718</u>
Operational Surplus	-	R 28,276



C BARNARD

CHIEF FINANCIAL OFFICER