

ADJUSTMENT BUDGET FOR THE 2019/2020 FINANCIAL YEAR

(5/1/3 (2019/2020))

Cluster : Finance
Portfolio : Financial Management & Budgets

PURPOSE

The purpose of the report is to present the detailed Adjustment Budget for 2019/2020 to Council for approval.

INTRODUCTION

Section 28 of the Municipal Finance Management Act sets out the conditions for the tabling and adoption of an Adjustments Budget. The Section reads, in part:

“Municipal adjustments budgets

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.*
- (3) *An adjustments budget must be in a prescribed form.*
- (4) *Only the mayor may table an adjustments budget in the municipal Council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.*
- (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.*
- (7) *Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.”*

BACKGROUND

The Municipal Manager, in conjunction with the Executive Directors determined that an adjustment budget is required to address the short comings within the existing budget in terms of the MFMA section 72(3).

The budget office conducted, in consultation with the MM, the affordable levels of expenses for each line item. Revised figures were then presented in order to finalize the adjustment budget taking into consideration the current financial situation of the municipality.

The criteria utilized for compiling the adjustment budget were determined by the following factors:

1. The Adjustment Budget must be compiled in compliance to the MFMA requirements as set out in Section 28(1-7) as specify in the body of the report. This relates to expenditure and income estimate deviations which have been anticipated in the IDP but which have not materialized for motivated reasons and external circumstances;
2. The adjustment must be substantiated through alignment with Cluster’s SDBIP and the Council’s approved IDP;
3. The original approved budget process and guidelines must be used to compile the 2019/2020adjustment budget and emphasis was placedthat it is not a new budget;
4. Clusters were required to reprioritize within their approved operating and capital budget allocations in accordance with the cost containment report as approved by the accounting officer as well as to address unforeseen and unavoidable expenditure and to correct errors detected in the approved budget.

DISCUSSION

The budget approach was applied by taking the following principles into account:

- In line with Councils mid-term report;
- Clusters to eliminate all luxury and non-priority items;
- Programs to be performed in-house first with no use of Consultants by all Clusters;
- Moratorium be placed on vacancies and attrition positions not to be filled, subject to Accounting Officer approval;
- Moratorium on controllable salary line items such as acting, overtime and car allowance;

As per annexure “A” the original approved budget for 2019/2020 indicates a net operating deficit of R23,251,160. A special adjustment budget had to be done end October based on concerns raised by National Treasury. The special adjustment resulted in an operating deficit of R9,518,148. The adjustment budget however reflects that Council will incur a net operating deficit of R 9,785,547 based on the current trend of expenses. The capital budget will however increase in budgeted expenses from R1,750,000 to R2,243,763. The amount on the capital budget will be financed from both the accumulated surplus and the RRAMS grant as determined by the GRAP principles and accounting standards.

During the compilation of the adjustment budget, various over and under expenditure and income deviations mainly in the employee related cost and general expenses category were found. The adjustment budget for the operating budget in relation to the expenditure category was increased by R218,656. The income budget in respect of the income category was decreased by R48,743 and the capital expenditure budget was increased by R1,450,000 in comparison of the special adjustment budget.

RECONCILIATION SUMMARY ON A BALANCED BUDGET

	ADJUSTMENT BUDGET 2019/20
TOTAL EXPENDITURE	416,170,219
TOTAL REVENUE	-406,384,672
(SURPLUS)/DEFICIT	9,785,547
Depreciation / Amortisation	11,271,875
Net cash from operating activities	1,486,328

Council is closing with a deficit on the operating budget and it must be emphasized that cost containment measures must still apply to maintain our cash flow projections. The contributors towards the total expenditure budget is attested to the employee related cost, contracted services, Transfer and subsidies and other general expenses.

The propose solutions to the currentscenario planning for Council are:

- Maintain a moratorium on non-critical vacancy and attrition post to generate a saving on the salary budget on a prioritization level subject to the approval of the Accounting Officer;
- Sourcing for additional revenue streams through the application of grant, subsidy, donor funding and miscellaneousincome functions

The detail motivations of the above principles applied are substantiated in points 1 – 3 below:-

1. Operating Expenditure Budget

The salary budget has an positive impact in the adjustment budget with a decrease of R1,073,663. The decrease is due to resignations and the current moratorium on vacancies

The other major operating adjustments in the various Clusters are illustrated as follows:

- a) Contracted Services
Contracted services show an decrease of R1,451,147
- b) Depreciation cost
An increase of R959kwas identified within the various asset classes based on adjustment in useful lives
- c) Legal Charges
There was an increase in allocation from legal charges which amounts to R700,000.
- d) Bursaries (training)
Training fees was increased based on the allocation receivable fromSETAwithR304,305.
- e) Municipal activities
Municipal activities was increase with R 300,400 based on the current needs identified within the Executive Mayors office
- f) Maintenance of CCTV
Maintenance on the CCTV need to be increase with R 1,453,753 as per current spending patterns and contractual obligation as identified.
- g) IT Network extension maintenance
An increase of R300,000 was needed based on current faults identified which need to be corrected within the current financial year
- h) Building leases
Building leases need to increase with an amount of R 730,565 due to contractual obligations which could not be negotiated downwards after the special adjustment budget

2. Income Budget

No major changes within the income budget was done:

3. Capital Expenditure Budget

The changes within the capital budget are as follows:

- Furniture and Equipment increase with R 16,300;
- Vehicles has increased with R 600,000 funded from the RRAMS grant and R700,000 for funding the Executive's mayor vehicle from internally generated funds
- From the RRAMS grant a further R150,000 will fund Computer equipment and machinery needed. The operational grant will therefore be transferred to the capital grant allocation

The adjustment budget for 2019/2020 is attached to the report as Annexure "A". as per the B schedule prepared in accordance with National Treasury reforms.

In conclusion in terms of the MFMA Chapter 4: Municipal Budgets section 18 (1) and (2) provides for Council to close on a deficit budget as stipulated below:

"FUNDING OF EXPENDITURE":

- (1) An annual budget may only be funded from -*
 - (a) Realistically anticipated revenues to be collected;*
 - (b) Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
 - (c) Borrowed funds, but not only for the capital budget referred to in section 17 (2).*
- (2) Revenue projections in the budget must be realistic taking into account –*
 - (a) Projected revenue for the current year based on collection levels to date; and*
 - (b) Actual revenue collected in previous financial years.*

RECOMMENDED:

1. THAT the 2019/2020 adjustment budget as annexed be hereby approved by the Council in the prescribed budget formats as received from National Treasury outlined below:

B Schedule - Annexure "A"

2. THAT the adjustment budget report be read in conjunction with the mid-term performance and financial reports presented to Council in January 2020;

MR CE STEYN
ACTING CHIEF FINANCIAL OFFICER

CLR P B TSOTETSI
MMC: FINANCE

DATE

DATE