

Our Ref: MLM adjustment v6/10

Your Ref:

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THE CITY MANAGER

(Council Item)

MANGAUNG LOCAL MUNICIPALITY - ADJUSTMENTS BUDGET FOR THE 2010/2011 FINANCIAL YEAR

Background

Section 28 of the Municipal Finance Management Act regarding the municipal adjustments budget states that:

- (1) A Municipality may revise an approved annual budget through an adjustments budget.
- (2) An adjustment 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, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
 - (d) may authorize the utilization of projected savings in one vote towards spending under another vote;
 - (e) may authorize 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 adjustment budget must be in prescribed form.
- (4) Only the Executive 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 of 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 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.

The Need for an Adjustments Budget

The current operational and capital budgets of Mangaung need to be revised in terms of the applicable legislation due to the following reasons:

- (a) To allow for additional grants, subsidies and donations received or to be received to be included in the budget.
- The 2010 FIFA World Cup Organizing Committee has allocated an amount of R16.5 million for the municipality as a once-off grant for the stadium use during the hosting of the 2010 FIFA Soccer World Cup tournament;
 - The Minister of Finance has allocated an amount of R151 million to the municipality in respect of the Public Transport Infrastructure and Systems Grant for the utilization on inter modal transport facility projects.
- (b) To appropriate all forms of grants, donations and subsidies those were unspent at the end of the previous financial year(2009/10):

Description	Amount
Restructuring Grant	123 685
Financial Management Grant	61 718
Motheo District Municipality Tourism	100 000
Public Transport Infrastructure and Systems Fund Grant	82 168 000
Municipal Infrastructure Grant	38 062 621
MIG Capacity Building (capital)	480 000
MIG Capacity building (Operating)	161 116
Skills Development	1 833 196
Municipal Systems Improvement Grant	500 000
Extended Public Works Programme Incentive Grant	7 861 000
Provincial Land Use Scheme Grant	1 343 791
Provincial Land Use Management System	748 686
Provincial Planning and Surveying Grant	574 210
DPLG: White City Infrastructure Grant	1 203 932
DPLG: Grassland Infrastructure Grant	3 965 043
Motheo District Municipality Environmental Health Contribution	175 000
Provincial Urban Renewal Grant	568 879
Police, Public Safety, Roads & Transport – CCTV Cameras	130 851
Police, Public Safety, Roads & Transport – Muller/Du Plessis	578 732
Provincial Department of Human Settlement (Operation Hlasela)	2 334 550
Provincial Department of Human Settlement (Operation Hlasela)	2 083 399
Provincial 2010 Stadium Development Grant	12 083 399
Provincial 2010 Stadium Development Grant	14 322 503
Kellogg's Foundation	2 300 000
City of Ghent	165 877
Total	162 198 317

There is therefore a need to incorporate this unspent balances into the operating and capital budgets in terms of Section 28 (2) (b) and 28 (2) (e) of the MFMA above.

- (c) To make provision for capital expenditure commitments where obligations or work in progress pertaining to capital expenditure projects that were approved and contracted for, but were not completed by the end of June 2010 and where the under spending could not reasonable have been foreseen – R16,233,497. See Annexure B;

- (d) To make provision for additional debt collection services that were not foreseen, while compiling the budget for the 2010/11 financial year – R5 million;
- (e) To adjust the valuation expenses down, due to the over provision of the expenses while compiling the budget for the 2010/11 financial year – (R5 million);
- (f) To make provision for Vat review services that were not foreseen, while compiling the budget for the 2010/11 financial year – R16,3 million;
- (g) To make provision for Vat penalties and interest expenses, as a result of the review that were not foreseen, while compiling the budget for the 2010/11 financial year – R12,83 million;
- (h) To make provision for additional Vacuum services costs that were not foreseen, while compiling the budget for the 2010/11 financial year – R10 million
- (i) To make provision for waste management operations that were not foreseen while compiling the budget for the 2010/11 financial year – R12 million;
- (j) To make provision for overtime expenses for the waste management operations. The expenses were not foreseen while compiling the budget for the 2010/11 financial year – R6 million;
- (k) To make provision for the review of organogram of the municipality. The expenses were not foreseen while compiling the budget for 2010/11 financial year – R2 million;
- (l) To make provision for the increase in electricity sales – R117, 09 million, as a result of higher approved and implemented tariffs by Nersa.
- (m) To make provision for the additional operating expenditure for Centlec to the extend of R31,908 million, as a result of the increase in electricity sales (see Annexure A).
- (n) To make provision for the shifting of funds amongst the votes, as a result of the centralization of fleet costs (R75,761,126) and telephone costs (R12,407,728) respectively.
- (o) To make provision for the shifting of capital funds for the Upgrading of Sports Facilities from Community and Social Development Directorate to Facilities Management (R5 million).
- (p) To make provision for additional capital funding for the Refurbishment of the Sewer Systems that were not foreseen, while compiling the budget for the 2010/11 financial year – R2.5 million
- (q) To make provision for additional capital funding for the Refurbishment of Water Network that were not foreseen, while compiling the budget for the 2010/11 financial year – R2.5 million
- (r) To make provision for additional capital funding for the Computer Equipment that were not foreseen, while compiling the budget for the 2010/11 financial year – R1,09 million.

The following table indicates the changes due to additional allocations and unspent balances, including shifting of funds between Operating and Capital Grants that has been affected and grants that have been reduced.

Table 1

Detail of Grants and Subsidies	Approved Budget 2010/11	Changes	Adjusted Budget
Operating Grants, Subsidies and Donations			
Equitable Share	494,273,000	0	494,273,000
Financial Management Grant	1,189,000	61,718	1,250,718
Municipal Systems Improvement Grant	750,000	500,000	1,250,000
Motheo District Municipality Environmental Health	3,000,000	100,000	3,100,000
MIG Capacity Building	0	161,116	161,116
Kellogs Foundation	0	351,528	351,528
Provincial Urban Renewal Grant	2,845,390	568,879	3,414,269
Provincial Land Use Management System	1,259,280	748,686	2,007,966
Provincial Housing Accreditation Subsidy	1,400,000	0	1,400,000
World Cup Operating Grant	19,000,000	0	19,000,000
2010 FIFA World Cup Organising Committee	0	16,500,000	16,500,000
2010 FIFA World Cup Grant	0	2,300,000	2,300,000
City of Ghent	0	165,877	165,877
Restructuring Grant	0	123,685	123,685
Skills Development Levy	0	1,833,196	1,833,196
Total Operating Grants	523,716,670	23,414,685	547,131,355
Capital Grants			
DPLG – White City Hostel Upgrading	0	1,203,932	1,203,932
Provincial Dept of Police, Public Safety Roads &Transport – CCTV Cameras	0	130,851	130,851
Provincial Dept of Police, Public Safety Roads &Transport – Roads and Stormwater - Langenhoven Park Intersection	0	578,732	578,732
Provincial Dept of Human Settlement: Housing - Batho Project	0	4,417,949	4,417,949
Public Transport and Infrastructure Systems Fund Grant	15,000,000	233,168,000	248,168,000
Provincial Planning and Surveying	0	574,210	574,210
Municipal Infrastructure Grant	166,883,610	38,062,621	204,946,231
DME – National Electrification Programme	13,000,000	0	13,000,000
Environmental Health Contribution – Motheo District Mun	3,775,000	175,000	3,950,000
Electricity Demand Side Management Grant	5,000,000	0	5,000,000
Department of Cooperative Governance and Traditional Affairs	0	1,343,791	1,343,791
Municipal Infrastructure Grant – Capacity Building	0	480,000	480,000
Expanded Public Works Programme	7,861,000	(7,861,000)	0
DPLG – Infrastructure Grasslands	0	3,965,043	3,965,043
Provincial World Cup Stadium Grant	0	14,322,503	14,322,503
Total Capital Grants	211,519,610	290,561,632	502,081,242

The following tables indicate the net changes on the expenditure per vote and expenditure per type, including shifting of funds between the votes:

Table 2

EXPENDITURE PER VOTE	Approved Budget 2010/11	Additional	Reduced	Net Changes	Adjustments Budget 2010/11
City Manager	5, 478, 512	20 000 000	221,735	19,778,265	25,256,777
Support Services (COO)	162, 301, 173	12,712,625	3,803,084	8,909,541	171,210,714
Corporate Services	84, 499, 538	1,833,196	4,027,267	(2,194,071)	82,305,467
Fresh Produce Market	13, 814, 152	0	207,339	(207,339)	13,606,813
Finance	93, 150, 510	9,000,000	2,222,401	6,777,599	99,928,109
Community and Social Development	252, 416, 060	1,269,869	9,013,616	(7,743,747)	244,672,313
Economic Development and Planning	68, 343, 313	1,769,093	1,195,278	573,815	68,917,128
Housing	28, 748, 812	0	622,412	(622,412)	28,126,400
World Cup Office	46, 404, 013	2,572,096	398,122	2,173,974	48,577,987
Infrastructural Services	370, 652, 597	60,700,444	38,686,279	22,014,165	392,666,762
Water	344, 812, 030	0	4,180,508	(4,180,508)	340,631,522
Miscellaneous Services	328, 415, 760	16,985,403	5,000,000	11,985,403	340,401,163
Electricity	1, 189, 287, 744	37,511,192	2,102,711	35,408,481	1,224,696,225
TOTAL EXPENDITURE PER VOTE	2, 988, 324, 214	164,353,918	71,680,752	92,673,166	3,080,997,380

Table 3

EXPENDITURE PER TYPE	Approved Budget 2010/11	Additional	Reduced	Net Changes	Adjustments Budget 2010/11
Salaries, Wages and Allowances	645,833,886	20,933,844	0	20,933,844	666,767,730
Social Contributions	129,121,475	2,308,293	0	2,308,293	131,429,768
Remuneration of Councillors	25,270,863	0	0	0	25,270,863
Seconded Personnel Salaries	116,539,267	0	0	0	116,539,267
Grants to Entity	52,692,600	0	0	0	52,692,600
General expenditure	286,472,247	71,904,579	33,557,623	38,346,956	324,819,203
Bulk Purchases	986,922,484	0	0	0	986,922,484
Contracted Services	153,469,284	30,247,777	6,269,869	23,977,908	177,447,192
Grants	2,033,369	0	0	0	2,033,369
Interest Shareholder Loan	99,484,963	0	0	0	99,484,963
Interest External Borrowings	50,967,362	0	0	0	50,967,362
Repairs and Maintenance	158,971,061	34,959,425	29,853,260	5,106,165	164,077,226
Inter Departmental Charges	20,286,502	0	0	0	20,286,502
Inter Departmental Recoveries	(13,099,862)	0	0	0	(13,009,862)
Services Rendered to Centlec	15,545,414	0	2,000,000	(2,000,000)	13,545,414
Depreciation	183,118,951	0	0	0	183,118,951
Bad Debt reserve	87,556,947	4,000,000	0	4,000,000	91,556,947
Provisions	7,323,704	0	0	0	7,323,704
Less: Amounts Charged Out	(20,186,305)	0	0	0	(20,183,305)
TOTAL EXPENDITURE PER TYPE	2,988,324,212	164,353,918	71,680,752	92,673,166	3 080,997,380

The following tables indicate the net changes on the revenue per source and revenue per vote:

Table 4

REVENUE PER SOURCE	Approved Budget 2010/11	Additional	Reduced	Net Changes	Adjustments Budget 2010/11
Assessment Rates	394,830,187	0	0	0	394,830,187
Services Charges					
Sale of Water	338,520,000	0	0	0	338,520,000
Sale of Electricity	1,167,996,963	146,806,629	29,713,464	117,093,165	1,285,090,128
Sanitary Fees	150,676,779	0	0	0	150,676,779
Operating Grants and Subsidies	558,409,270	21,581,489	0	21,581,489	579,990,759
Capital Grants and Subsidies	229,519,610	298,422,632	7,861,000	290,561,632	520,081,242
Fines	5,384,845	0	0	0	5,384,845
Interest Earned External Investments	52,046,245	0	0	0	52,046,245
Interest Earned Outstanding Debtors	27,642,431	0	0	0	27,642,431
Interest on Shareholder Loan	99,484,963	0	0	0	99,484,963
Rent of Facilities and Equipment	18,227,493	0	0	0	18,227,493
Licenses and Permits	752,578	0	0	0	752,578
Agency Services	17,120,577	0	0	0	17,120,577
Seconded Personnel	117,427,293	0	0	0	117,427,293
Public Contributions	19,967,120	916,614	0	916,614	20,883,734
Profit on Sale of Assets	36,135	0	0	0	36,135
Other Revenue	121,062,494	5,459,896	122,613	5,337,283	126,399,777
TOTAL REVENUE PER SOURCE	3,319,104,983	473,187,260	37,697,077	435,490,183	3,754,595,166

Table 5

REVENUE PER VOTE	Approved Budget 2010/11	Additional	Reduced	Net Changes	Adjustments Budget 2010/11
Property Rates	547,082,715	0	0	0	547,082,715
City Manager	0	0	0	0	0
Support Services (COO)	22,808,840	288,490	4,780	283,710	23,092,550
Corporate Services	3,004,646	0	8,730	(8,730)	2,995,916
Fresh Produce Market	16,801,990	0	2,000	(2,000)	16,799,990
Finance	39,863,332	0	42,037	(42,037)	39,821,295
Community and Social Development	26,860,098	1,837,283	33,127	1,804,156	28,664,254
Economic Development and Planning	16,216,628	1,100,214	8,373	1,091,841	17,308,469
Housing	16,961,600	0	20,000	(20,000)	16,941,600
World Cup Office	19,000,000	16,500,000	150	16,499,850	35,499,850
Infrastructural Services	304,763,049	916,014	2,050	913,964	305,677,013
Water	473,737,200	0	1,366	(1,366)	473,735,834
Miscellaneous Services	542,823,811	302,238,030	7,861,000	294,377,030	835,996,909
Electricity	1,289,181,074	150,307,229	29,713,464	120,593,765	1,403,934,839
TOTAL REVENUE PER VOTE	3,319,104,983	473,187,260	37,697,077	435,490,183	3,754,595,166

The following tables indicate the net changes on the capital budget and the financing thereof:

Table 6

	Approved Budget 2010/11	Additional	Reduced	Net Changes	Adjustments Budget 2010/11
CAPITAL EXPENDITURE PER VOTE					
Support Services (COO)	40,000	1,090,000	0	1,090,000	1,130,000
Community and Social Development	13,775,000	20,049,695	0	20,049,695	33,824,695
Finance	0	6,000,000	0	6,000,000	6000,000
Economic Development and Planning	11,000,000	2,703,478	2,500,000	203,478	11,203,478
Housing	0	11,812,184	144,647	11,667,537	11,667,537
World Cup Office	30,000,000	255,504,805	4,974,884	250,529,921	280,529,921
Infrastructural Services	215,293,220	109,207,472	12,122,956	97,084,516	312,377,736
Water	53,660,000	8,846,996	54,321,000	(45,474,004)	8,185,996
Electricity	49,487,720	75,303,786	0	75,303,786	124,791,506
TOTAL CAPITAL EXPENDITURE	373,255,940	490,518,416	74,063,487	416,454,929	789,710,869

Table 7

	Approved Budget 2010/11	Additional	Reduced	Net Changes	Adjustments Budget 2010/11
CAPITAL FINANCING SOURCES					
External Loans	69,969,895	0	0	0	69,969,895
Capital Replacement Reserve	71,798,715	142,100,239	17,122,956	124,977,283	196,775,998
Public Contributions/ Donations	19,967,720	916,014	0	916,014	20,883,734
Public Transport Infrastructure & Systems Grant	15,000,000	238,142,884	4,974,884	233,168,000	248,168,000
Provincial World Cup Stadium Dev Grant	0	14,322,503	0	14,322,503	14,322,503
National Electrification Programme	13,000,000	0	0	0	13,000,000
EPWP Incentive Grant	7,861,000	0	7,861,000	(7,861,000)	0
Electricity Demand Side Management Grant	5,000,000	0	0	0	5,000,000
Municipal Infrastructure Grant	166,883,610	82,022,621	43,960,000	38,062,621	204,946,231
Motheo District Municipality	3,775,000	175,000	0	175,000	3,950,000
COGTA	0	1,343,791	0	1,343,791	1,343,791
MIG Capacity Building	0	480,000	0	480,000	480,000
Provincial - Batho Project	0	4,562,596	144,647	4,417,949	4,417,949
Provincial: Planning and Survey	0	574,210	0	574,210	574,210
Local Govt. and Housing Infrastructure Grant	0	3,965,043	0	3,965,043	3,965,043
DPLG Grant White City	0	1,203,932	0	1,203,932	1,203,932
Provincial: CCTV Cameras	0	130,851	0	130,851	130,851
Province – Muller and Du Plessis Intersection	0	578,732	0	578,732	578,732
TOTAL CAPITAL FINANCING	373,255,940	490,518,416	74,063,487	416,454,929	789,710,869

The table below summarizes the increases in the Operating and Capital Budgets:

Table 8

Summary of Increases and Decreases in the Budget	Expenditure Budget	Revenue Budget	Capital Budget
Approved Budget 2010/11	2,988,324,212	3,319,104,983	373,255,940
Additional	164,353,918	473,187,260	490,518,416
Reduced	(71,680,752)	(37,697,077)	(74,063,487)
Adjusted Budget 2010/11	3,080,997,380	3,754,595,166	789,710,869
Increase in Budget	92,673,166	435,490,183	416,454,929
Grant Funding	6,914,685	312,143,121	290,561,632
Public Contributions	0	916,614	916,614
Net Increase in Budget (Own Funds)	85,758,481	122,430,448	124,976,683

Council should take note that the unspent grants at 30 June 2010 amounted to R232,727 million (Capital R206,1 million and Operating R26,6 million). The unspent grants balance for both, Capital and Operating has been reduced to R52,85 million at end of December 2010 and represent expenditure of R179,88 million for six months.

Recommendations

- a) that the Council's Expenditure Budget for the 2010/11 financial year be increased with R92,673,166 to R3,080,997,380;
- b) that the Council's Revenue Budget for the 2010/11 financial year be increased with R435,490,183 to R3,754,595,166 and,
- c) that the Council's Capital Budget for the 2010/11 financial year be increased with R416,454,929 to R789,710,869.

PROPOSED BY

B R TAYE
CHIEF FINANCIAL OFFICER

Date:

RECOMMENDED

S J MSIBI
MUNICIPAL MANAGER

Date:

APPROVED/NOT APPROVED

F P MORULE
EXECUTIVE MAYOR

Date: