

Report To : **COUNCIL**

File ref : \_\_\_\_\_\_\_\_\_\_\_\_\_

Collaborator/Item no : \_\_\_\_\_\_\_\_\_\_\_\_\_

Date :  **29 MARCH 2016**

**SUBJECT: REPORT DATED 29 MARCH 2016 FROM THE EXECUTIVE MAYOR TO COUNCIL ON THE RESUBMISSION OF THE ADJUSTMENT OF THE CAPITAL BUDGET.**

1. **PURPOSE**

The purpose of this item is to seek **APPROVAL** of the Council on the resubmission of the adjustment of the 2015/16 annual capital budget as required by the MFMA.

1. **LEGISLATIVE BACKGROUND**

MBRR sub regulation 23(2) allows for such an adjustment from where it states that only one adjustment budget may be tabled  with exception to **additional revenues** stated in MFMA section 28(2)(b), in which case sub regulation 23(3) applies;

MFMA section 28(2)(b) read with MBRR sub regulation regulation23(3) states that the mayor must table an adjustment budget in the next Council sitting or within 60 days of the approval of the relevant national/provincial gazette.

Capital revenue and individual capital projects funded from the MIG grants is now reflected in the resubmitted capital adjustment budget.

1. **BACKGROUND**

After the Council meeting of 24 February 2016, the information was submitted to National Treasury and Provincial Treasury as required. Subsequent to this submission, we were informed by Provincial Treasury to include the MIG allocation in our budget and submit the item to Council. The MIG allocation is gazetted and paid to SBDM, and initially the agreement was that SBDM will pay the service providers directly. At a subsequent meeting it was decided that, due to VAT implications, SBDM will pay the funds over to Makana Municipality once we receive the invoices and claim from them, and we will then pay the service providers. In order to prevent us from having to report this expenditure as unauthorised expenditure, Makana Municipality has to include it in our budget.

As a result, the changed portions of the item is now resubmitted with the changed adjusted capital budget information.

1. **DISCUSSION**

In line with the MFMA, the 2015/16 approved Capital Budget is now being re-adjusted. The re-adjustment has been necessitated due to the following:

* The MIG allocation was re-gazetted to Sarah Baartman District Municipality.
* An SLA was entered into with SBDM whereby they will pay the service providers directly.
* At a meeting on 14 March 2016 where Provincial Treasury, Makana Municipality and Sarah Baartman District Municipality officials were present, the SLA was changed as there were complications relating to the claiming of VAT if SBDM pays the service providers directly.
* The new SLA states that Makana Municipality will submit a claim to SBDM once the invoices are received from the service providers, and then pay the service providers once SBDM pays the money to Makana Municipality.
* However, if the projects are not budgeted for, it will result in unauthorised expenditure – hence the need was identified by Provincial Treasury to revise our adjusted capital budget to include the MIG projects
* SBDM will however report on the expenditure to National and Provincial Treasury as the funds are gazetted to them, while Makana Municipality will report internally on the progress of the project.

The Municipal Budget and Reporting Regulations, which were promulgated by National Treasury, prescribe the budget reporting formats for municipalities. Accordingly this Municipality’s 2015/16 Adjustments Budget will be submitted to all relevant stakeholders once approved by Council.

For ease of reference and in order to save on paper, the item (excluding the tables) as submitted to Council for the meeting of 24 February 2016 is attached hereto. Those tables that have changed now are as follows:

Tables SB7, SB8, B1, B4, B5, B9, SB2, SB7, SB8, SB9. These tables are attached hereto and can be compared to the tables found in the agenda of 24 February 2016.

**RECOMMENDATIONS**

It is recommended **THAT:**

1. Council approves the re-adjustment of the capital budget for the 2015/16 financial year and the Supporting Documentation attached as Annexures
2. That it be noted that Capital revenue and individual capital projects funded from the MIG grants has now been reflected in the adjustment budget.
3. That the Service Delivery and Budget Implementation Plan (SDBIP) be adjusted accordingly inclusive of performance measurement.
4. That it be noted that this re-adjustment of the capital budget that was adjusted on 24 February 2016, was necessitated due to a change in the treatment of the Makana MIG allocation gazetted to Sarah Baartman District Municipality, to simplify the claiming of VAT on the expenditure by Makana Municipality.

**COMMENTS FROM THE EXECUTIVE MANAGEMENT:**

* + 1. TECHNICAL AND INFRASTRUCTURE SERVICES: Yes
    2. COMMUNITY AND SOCIAL SERVICES: Yes
    3. CORPORATE SERVICES: Yes
    4. BUDGET AND TREASURY SERVICES: Yes
    5. LOCAL ECONOMIC DEVELOPMENT: Yes
    6. MUNICIPAL MANAGER: Yes

**FOR FURTHER DETAILS CONTACT:**

|  |  |
| --- | --- |
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| **DIRECTORATE** | **Budget and Treasury Directorate** |

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**ACT. CHIEF FINANCIAL OFFICER ACT. MUNICIPAL MANAGER**

**MR. M. CROUSE MS. M. MEIRING**

**……………………………**

**EXECUTIVE MAYOR**

**HON. CLR N. GAGA**

**2015/2016 ADJUSTMENT BUDGET**

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**Glossary**

**Adjustments Budget** – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**Budget** – The financial plan of the Municipality.

**Budget Related Policy** – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

**Capital Expenditure** - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality’s balance sheet.

**Cash flow statement** – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

**DORA** – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

**Equitable Share** – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**IDP** – Integrated Development Plan. The main strategic planning document of the Municipality

**KPI’s** – Key Performance Indicators. Measures of service output and/or outcome.

**MFMA** – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years’ financial position.

**Operating Expenditure** – Spending on the day to day expenses of the Municipality such as salaries and wages.

**Rates** – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates. Strategic Objectives – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Unauthorised expenditure** – Generally, spending without, or in excess of, an approved budget.

**Virement** – A transfer of budget. Vote – One of the main segments of a budget.

**PART 1 – ANNUAL BUDGET**

**Section 1.1– Mayor’s Report**

**Section 1.2 - Budget Related Resolutions Makana Municipality MTREF 2015/2016**

These are the resolutions that must be approved by Council with the final adoption of the adjustments budget:

**RESOLVED:**

1. That the adjustments budget, inclusive of changes in terms of section 28(2) of the MFMA, of Makana Municipality for the financial year 2015/2016; and indicative for the two projected years be approved (in addition to the resolutions already taken on 24 February 2016, except those replaced by the following):
   1. Table B1: Adjustment Budget Summary
   2. Table B4: Budgeted Financial Performance (revenue by source)
   3. Table B5: Budgeted Capital Expenditure for both multi-year and single year by vote, standard classification and funding.
   4. Table B9: Asset Management
   5. Table SB2: Supporting detail to Financial Position Budget
   6. Table SB7: Supporting detail for transfers and grant receipts
   7. Table SB8: Supporting detail for expenditure on transfers and grants
   8. Table SB9: Supporting detail for reconciliation of transfers, grant receipts and unspent funds

**Section 1.3 - Executive Summary**

The following report summarizes the consultation by the Budget and Treasury Office with Departments:

* The need to re-prioritize projects within the existing 2015/2016 Budget was identified;
* Capital projects – original allocations have been decreased by R106 778 792 on both internal and external funding, compared to the R128 864 990 as originally submitted on 24 February 2016. The difference is R22 086 198 in respect of the MIG projects that has to remain on the budget.

In view of the aforementioned, the following table is a consolidated overview of the Approved 2015/16 adjustment budget

**Table 1: OVERVIEW OF THE ADJUSTMENT BUDGET 2015/16**

|  |  |  |
| --- | --- | --- |
| **Details** | **Original Budget 2015/16** | **Adjusted Budget 2015/16** |
| Total Operating Revenue (Accrued) | R427 637 000 | R440 052 661 |
| Total Operating Expenditure | R427 637 000 | R437 920 090 |
| Total Capital Expenditure | R191 857 000 | ***R85 078 198*** |

**1.4 Capital Expenditure Framework**

Makana’s total capital expenditure for the first six months was below 50% and that again compromised the service delivery to be provided to the community. This is as a result of in-kind grants not directly transferred to the municipal bank account, poor planning, and lack of funds.

The total capital budget has decreased by R106,778,792 the decrease was due to:-

* Adjustment of DWS allocation from R127 000 000 to R26 141 000. The expenditure of this grant relates to bucket eradication programme. The bill is not yet approved however the implication to budgetary provision has been considered.
* Reduction of R8 075 008 for internally funded projects.
* An increase of R300 000 NDPG grant for Technical Assistance.
* An increase of R550 000 for acquisition of a Fixed Asset Register system - the funding will be sourced from MSIG & FMG
* An additional R254 918 from Department of Human Settlement for Transit Camp Housing Project.
* The operating deficit of 2 923 421 is a result of non-cash items such as impairment and depreciation and is in terms of Circulars 55 and 66.



**Changes to allocations and grant adjustments**

**The adjustments could be summarised as follows:**





**1.5 ADJUSTMENT BUDGET MAIN TABLES**







Table B5 provides a breakdown of revised capital programme in relation to capital expenditure by municipal vote; capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments and internal funding.



**PART 2 – SUPPORTING DOCUMENTATION**



Transfers & Grants Receipts allocated to the municipality together with the expenditure on those grants are shown in the schedules SB7 to SB9







**2.1 Detailed Capital Budget**





**Municipal Manager’s quality certification**

I, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Acting Municipal Manager of Makana Municipality, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the adjustments budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

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Acting Municipal Manager of Makana Municipality (EC104)

Signature ……………………………. Date …………………………………….