

Item

OFFICE OF THE MUNICIPAL MANAGER

MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT AND ADJUSTMENTS
BUDGET REPORT FOR THE 2010/11 FINANCIAL YEAR

1. PURPOSE

The purpose of the report is to present the mid-year budget and performance assessment report and to obtain approval for adjustments to the approved 2010/11 Medium Term Revenue and Expenditure Framework (MTREF) in terms of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

2. BACKGROUND

The 2010/11 MTREF was approved by Council on 4 June 2010 in accordance with section 24(1) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and applicable National Treasury guidelines.

In terms of section 72 of the MFMA *“the accounting officer of a municipality must assess the performance of the municipality during the first half of the financial year”*, taking into account the monthly budgeted statements, the municipality’s service delivery performance in terms of the Service Delivery and Budget Implementation Plan (SDBIP) and the past year’s annual report.

It is further stated in section 72 of the MFMA that *“the accounting officer must as part of the review make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary”*.

Section 69(2) of the MFMA further stipulates that *“when necessary, the accounting officer must prepare an adjustment budget and submit it to the mayor for consideration and tabling in the municipal council”*.

Section 28(2) of the MFMA provides guidelines on when and how an adjustments budget can be prepared. The guidelines are the following:

- A municipality may revise an approved annual budget through an adjustments budget.
- 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.

The assessment of the performance and budget of the municipality for the first six months of the financial year was undertaken in line with the above legislative imperatives and as part of the municipality's internal performance management processes. The assessment included a detailed review of:

- the actual performance of each Directorate and Cluster during the period 1 July to 31 December 2010 against the performance targets approved in the 2010/11 SDBIP
- the actual revenue collected from all main sources for the period 1 July to 31 December 2010,
- the actual operating expenditure incurred for all votes and items for the period 1 July to 31 December 2010, and
- the actual and projected expenditure on all capital projects for the period under review.

The outcomes of the above-mentioned analysis are presented in the following sections of the report with further details provided in the listed appendices to the report.

3. MID-YEAR PERFORMANCE ASSESSMENT

The actual performance of each Directorate/Cluster against the service delivery targets contained in the approved 2010/11 SDBIP is attached as Annexure K on page_____.

The annexure reflects that the majority of the directorates and clusters have made progress against the quarterly targets set in the SDBIP. In a number of areas progress has been delayed due to financial constraints experienced in respect of internally funded projects and projects to be funded by external loans.

The Municipal Manager will ensure that appropriate measures are implemented by Directorates to fast-track actual performance in areas where the mid-year review reflects material under-performance.

4. MID-YEAR BUDGET ASSESSMENT

Council adopted, on the 4 June 2010, the 2010/11 MTREF, which reflected allocations for the 2010/11 financial year to the amount of R 580 051 120 and R580 052 120 in respect of expenditure and revenue respectively.

Isolated requests were received for the shifting of funds between votes as per Annexure A on page ----

Further requests as per Annexure B on page ---, were received as a result of the mid-year budget and performance assessment conducted for the shifting of funds and amendment of the budget. A summary of the expenditure against the budget for the municipality for past 6 months to December 2010, as well as the actual revenue collected compared to the budget is attached as Annexure C on page --- The target is to be at 50% billing/collection and expenditure for the period under review.

The table below provides a summary of the actual revenue and operating expenditure for the first six months of the 2010/11 financial year compared to the annual budget.

Revenue by source	2010/11			2011/12	2012/13
	Original Budget	Actual Revenue 31 Dec. 2010		MTREF	MTREF
	R'000	R'000	%	R'000	R'000
Property rates	74 488	41 434	55.6%	75 085	80 301
Electricity	130 047	60 638	46.6%	142 846	153 411
Sanitation	25 082	8 102	32.3%	27 527	29 599
Water	133 241	46 628	34.9%	149 542	160 672
Refuse removal	30 152	8 819	29.2%	32 935	35 405
Other service charges	9 402	2 557	27.2%	9 188	9 006
Govt grants - operating	98 720	35 552	36.0%	107 812	102 190
Fines/Penalties	18 671	1 519	8.1%	20 707	21 726
Interest	12 700	8 722	68.7%	9 325	8 960
Licences and permits	111	29	26.1%	117	120
Rental of facilities	3 833	2 188	57.1%	4 590	5 117
Other	32 159	356	11.1%	1 606	1 567
Departmental charges	11 446	3 540	30.9%	12 457	12 015
	580 052	220 085	37.9%	593 797	620 176

Additional Information on the Services Levied budget against actual levies

Revenue by source	2010/11		
	Original Budget	Actual Revenue 31 Dec. 2010	
	R'000	R'000	%
Property rates	83 017	46 008	55.4%
Forgone Income	-8 529	- 4 574	53.6%
Total Property rates	74 488	41 434	55.6%
Electricity	139 995	66 873	47.8%
Forgone Income	9 948	5 909	59.4%
Adjustments in January 2011		3 670	
Total Electricity	130 047	64 634	49.7%
Sanitation	26 600	9 680	36.4%
Forgone Income	1 518	827	54.5%
Total Sanitation	25 082	8 853	35.3%
Water	151 806	55 499	36.5%
Forgone Income	18 565	7 955	42.9%
Adjustments in January 2011		28 800	
Total Water	133 241	76 344	57.3
Refuse removal	30 152	11 558	38.3%
Other service charges	9 402	2 557	27.2%
Govt grants - operating	98 720	35 552	36.2%
Fines/Penalties	18 671	1 519	8.1%
Interest	12 700	8 722	68.7%
Licences and permits	111	29	26.1%
Rental of facilities	3 833	2 188	57.1%
Other	32 159	356	11.1%
Departmental charges	11 446	3 540	30.9%
	580 052	257 286	44.4%

Provision was made on the budget for services to be rendered to new areas (Mooiplaats, Moodraai and Amelia) but it did not materialise yet. All households must be billed when the refuse is removed from the houses, and the sewer is connected.

The table below provides a summary of the actual operating expenditure by main type for the first six months of the 2010/11 financial year compared to the annual budget.

Operating expenditure by main type	2010/11			2011/12	2012/13
	Original Budget	Actual Expenditure 31 Dec. 2010		MTREF	MTREF
	R'000	R'000	%	R'000	R'000
Employee related costs	160 345	54 709	34.1%	211 302	212 243
Remuneration of councillors	10 769	3 921	36.4%	11 843	13 026
Bad debts	40 000	16 667	41.7%	101 500	67 000
Repairs and maintenance	35 900	5 146	14.3%	28 155	32 207
Bulk purchases-electricity	98 852	45 229	45.8%	156 878	290 657
Bulk purchases-water	66 114	27 800	32.3%	71 404	77 116
Contracted services	14 167	4 935	42.0%	19 793	21 737
General expenses	153 904	30 704	19.9%	181 761	219 399
	580 051	189 111	32.6%	782 636	933 385

Note:

Due to system problems the salaries for December 2010 do not reflect in the actual expenditure above. However, it was taken into account with the adjustments budget. The actual salary expenditure for the 6 months amounted to 41.7% of the total budget

The table below provides a summary of the actual capital expenditure by vote for the first six months of the 2010/11 financial year compared to the annual budget.

Capital expenditure by vote	2010/11			2011/12	2012/13
	Original Budget	Actual Expenditure 31 Dec. 2010		MTREF	MTREF
	R'000	R'000	%	R'000	R'000
Exec. & Council (MM, Mayor, Council)	7 365	2 317	31.5%	6 436	5 001
Corporate Services	3 852	0	0.0%	1 659	1 731
Social Services	35 930	1 617	4.5%	67 331	80 063
Refuse Removal	4 477	4	0.1%	27 375	49 741
Public Safety	4 545	34	0.7%	15 218	15 068
Sport and Recreation	23 475	32	0.1%	13 186	14 969
Community Services	3 433	1 547	45.1%	11 552	285
Technical Services	123 139	7 245	5.9%	108 675	72 796
Streets and Storm water	56 019	2 038	3.6%	37 750	27 500
Sewerage	9 103	2 774	30.4%	11 290	4 500
Water supply	33 164	1 319	3.9%	4 900	2 650
Electricity supply	24 421	1 095	4.9%	43 509	27 145
Mechanical Workshop/Buildings	432	19	4.4%	1 225	1 000
Financial Services	1 966	0	0.0%	1 659	1 731
Economic Dev. and Planning	172 065	0	0.0%	166 625	12 235
Housing & Urban Planning	167 415	0	0.0%	150 225	12 235
Economic Development	4 650	0	0.0%	16 400	0
	344 317	11 179	3.3%	351 441	172 534

5. ADJUSTMENTS BUDGET

Operating Revenue

A detailed analysis of the revenue budget against the actual collection/billing as at December 2010 was done as per Annexure D on page ---. As indicated on the annexure, instances were identified where the actual revenue collected/billed for 6 months is less than 50 %. A possibility exists that if the current trend continues, only 50% will be collected/billed at the end of June 2011. We therefore recommend that where the actual revenue collected/billed is less than 25% of the budget amount, the income and expenditure amounts budgeted be reduced by 50%. Where the actual revenue collected/billed ranges between 26 and 49 % of the budget amount, the income and expenditure amounts budgeted be reduced by 25%.

The revenue received/billed that exceed 55% for the period till December 2010 is attached as per Annexure E on page____. The revenue can increase in some instances.

Provision was made on the budget for the sale of land to the amount of R30 million. No revenue is received till date. It is recommended that this revenue as well the ensuing expenditure be reduced to R8 million.

The table below provides a summary of the adjusted operating revenue budget.

Revenue by source	2010/11	2010/11	2011/12	2012/13
	Original Budget	Adjusted Budget	MTREF	MTREF
	R'000	R'000	R'000	R'000
Property rates	74 488	74 788	75 085	80 301
Electricity	130 047	128 176	142 846	153 411
Sanitation	25 082	24 940	27 527	29 599
Water	133 241	134 806	149 542	160 672
Refuse removal	30 152	30 152	32 935	35 405
Other service charges	9 402	6 931	9 188	9 006
Govt grants - operating	98 720	98 234	107 872	102 277
Fines/Penalties	18 671	9 733	20 707	21 726
Interest	12 700	15 380	9 325	8 960
Licences and permits	111	111	117	120
Rental of facilities	3 833	3 735	4 590	5 117
Other	32 159	9 777	1 606	1 567
Departmental charges	11 446	11 446	12 457	12 015
	580 052	548 209	593 797	620 176

Operating Expenditure

The salary budget overall reflect a spending of 41,7% but individual line items can be most probably overspent and can be rectified at the end of June 2010 by movement of funds on the salary budget with no overspending of the total salary budget of R170 315 310 as originally approved. R16.8 million was budget for vacancies. R5.6 million was used for the appointment of new staff since the beginning of the financial year. Temporary staff that was appointed till December 2010 cost the municipality R456 727.

Expenditure on overtime from different directorates is attached as per Annexure F on page ---. For the past 6 month to December 2010, expenditure is 71.8% of the budget amount. If it is projected for 12 months the overtime will amount to R11.6 million against the R8,1 million budgeted. Included in the overtime expenditure, are payments in respect of standby work, cashiers

working a 7 day working week instead of 5, cashier balancing, shift workers (Parks, Public Safety, Fire). The conditions of service in respect of these officials need to be reviewed as a matter of urgency to accommodate their nature of work.

Annexure G on page____, depicts expenditure that exceeds 55% for the period 1 July to December 2010. The actual expenditure must be minimized for the next 6 months to ensure that the budget is not exceeded. Votes must be identified from which funds could be to transfer to accommodate the excess expenditure.

The actual expenditure that is less than 45% for the period December 2010 is attached as per Annexure H on page____. The budget amount must be reduced in accordance with the expenditure trends.

The table below provides a summary of the adjusted operating expenditure budget.

Operating expenditure by main type	2010/11	2010/11	2011/12	2012/13
	Original Budget	Adjusted Budget	MTREF	MTREF
	R'000	R'000	R'000	R'000
Employee related costs	160 345	161 640	211 302	212 243
Remuneration of councillors	10 769	10 769	11 843	13 026
Bad debts	40 000	40 000	101 500	67 000
Repairs and maintenance	35 900	35 252	28 155	32 207
Bulk purchases-electricity	98 852	98 852	156 878	290 657
Bulk purchases-water	66 114	66 114	71 404	77 116
Contracted services	14 167	12 432	19 793	21 737
General expenses	153 904	139 706	181 761	219 399
	580 051	564 765	782 636	933 385

Capital expenditure

The majority of directorates under-spent significantly on their capital projects during the first six months of the financial year. The tenders for a number of projects have already been advertised and it is expected that accelerated spending will start showing on these projects within the next few months.

The following should be noted in respect of adjustments to the capital budget:

- It is recommended that all vehicles budgeted under directorates must be transferred to Financial Services. The Chief Financial Officer is

currently finalising discussions with the Government Garage to lease most of the municipality's vehicle requirements on much more competitive and cost-effective terms. An amount of R10 million funded by external loans must be appropriated to this vote.

- Amendments to MIG-funded projects are recommended as reflected per Annexure I on page --- .
- In cases where Directorates did not indicate or motivate that projects will be implemented during the remaining part of the current financial year, it is recommended that the budget for such projects must either be reduced, removed or shifted to the next financial year.
- All housing-related projects amounting to R160,1 million where the actual funding is controlled directly by the Province have been removed from the capital budget.
- All District-funded projects, such as fire-fighting vehicles and equipment, amounting to R3,9 million where the actual funding and expenditure are directly managed by the District have been removed from the capital budget.
- Projects funded and directly managed by Sasol Mining, such as the Multi-Purpose Centre (R19 million) and the Zamdela Park (R500 000) have also been removed from the budget.

Actual expenditure for the 6 months up to December 2010 amounted to R11 179 million. This must be reviewed in line with planned projects that could still be implemented within this financial year. Attached as Annexure J on page_____.

The table below provides a summary of the adjusted capital budget.

Capital expenditure by vote	2010/11		2011/12	2012/13
	Original Budget	Adjusted Budget	MTREF	MTREF
	R'000	R'000	R'000	R'000
Exec. & Council (MM, Mayor, Council)	7 365	6 615	6 436	5 001
Corporate Services	3 852	1 020	1 659	1 731
Social Services	35 930	6 568	67 331	80 063
Refuse Removal	4 477	1 232	27 375	49 741
Public Safety	4 545	333	15 218	15 068
Sport and Recreation	23 475	1 798	13 186	14 969
Community Services	3 433	3 205	11 552	285
Technical Services	123 139	103 764	108 675	72 796
Streets and Storm water	56 019	55 169	37 750	27 500
Sewerage	9 103	9 821	11 290	4 500
Water supply	19 235	7 534	4 900	2 650
Electricity supply	24 421	24 271	43 509	27 145
Mechanical Workshop/Buildings	432	182	1 225	1 000
Administration	13 929	6 787	10 000	10 000
Financial Services	1 966	10 266	1 659	1 731
Economic Dev. and Planning	172 065	4 936	166 625	12 235
Housing & Urban Planning	167 415	1 936	150 225	12 235
Economic Development	4 650	3 000	16 400	0
	344 317	133 169	351 441	172 534

Summary

With the adjustments budget, the total budgeted (expenditure) has **decreased by R 15 286 million** to R564 765 million. The revenue budget has **decreased by R31 843 million** to R548 209 million. A total deficit of R16 556 million resulted, which will be funded from Accumulated Surplus as and when cash is available.

The Capital budget decreased by **61,3%** or **R211,1 million** to **R133,2million**. Capital from own funding (accumulated surplus) will only be used based on the availability of cash.

1. Attached as Annexure L on page --- graphs and schedules that indicate the amended Capital Budget.
2. Attached as Annexure M on page --- schedule and charts that indicate the amended Operating Budget as per Revenue sources and Expenditure type.

3. Attached as Annexure N on page___ schedule and chart that indicates the amended Operating Budget as per Revenue and Expenditure vote.
4. Attached as Annexure O on page___ the Statement of Financial Position.
5. Attached as Annexure P on page___ the Cash Flow.

6. RECOMMENDATIONS

The following recommendations are presented to Council for consideration

**FOR
ATTENTION**

- | | |
|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | That Council note the contents of the report dealing with the mid-year budget and performance assessment and adjustments budget for 2010/11. |
| 2 | That Council note that the adjustments budget has been submitted by the Mayor in terms of section 28 (2) (b) and (d) of the MFMA and for approval in terms of section 28 (4) of the MFMA. . |
| 3 | That Council note that the adjustments budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget. |
| 4 | That where the actual revenue collected is less than 25% of the budgeted amount, the revenue and expenditure amounts budgeted be reduced by 50%. Where the actual revenue collected ranges between 26 and 49 % of the budget amount, the revenue and |

Council
Council
Council
CFO

	expenditure amounts budgeted is reduced by 25%. Annexure D refers.	
5	That the revenue as well the ensuing expenditure budgeted for the sale of land amounting to R30 million be reduced to R8 million	CFO
6	That where actual expenditure that is less than 45% for the period December 2010 as per attached Annexure H on page____. The budgeted amount be reduced in accordingly.	CFO
7	That the shifting of funds between votes in terms of section 28 (2) (d) of the MFMA as per Annexure A and B, be approved and reflected in the adjusted budget for 2010/11	CFO
8	That the capital budget financed from own funding amounting to R26 943 810 be reviewed in line with planned projects that could still be implemented within this financial year and the necessary amendments be made to the service delivery targets on the SDBIP.	CFO MM
9	That capital budget be amended with capital projects funded by MIG as per Annexures I and J and the necessary amendments be made on the SDBIP	CFO MM
10	That Council approves the 2010/11 mid-year budget and performance assessment report submitted by the Municipal Manager in terms of section 72(1)(b) of the MFMA.	Council
11	That Council approves the 2010/11 adjustments budget	Council
12	That upon approval of the adjustments budget by Council, the budget office ensures that, in terms of section 22 (b) of the MFMA, the adjustments budget is	CFO

submitted in both printed and electronic formats to the
National Treasury and Provincial Treasury.

