

7802
ADJUSTMENT BUDGET 2011/2012

This report is submitted simultaneously to the Executive Committee and Council with the concurrence of the Mayor, Clr E F Mbatha and the Speaker, Clr M S Mnqayi.

PURPOSE

To submit to Council, the revised Multi-Year Adjustments Budget for the 2011/2012 Financial Year, as required in terms of Section 28 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) and in terms of the new Municipal Budget and Reporting Regulations.

IDP STRATEGY AND OBJECTIVES

DEVELOPMENT STRATEGY 5: SOUND FINANCIAL MANAGEMENT

Aim

- To ensure a healthy municipal revenue base that is aligned with the IDP, in order to ensure efficient, effective and sustainable service delivery and meeting the needs of the City's inhabitants

Goals

- Ensure that Financial Planning, Budgeting and Expenditure aligns with the IDP
- Increase the Municipal Revenue Base
- Maintain high levels of Debt Control
- Implement Revenue Enhancement measures

BACKGROUND

In terms of section 28 of the Municipal Finance Management Act, the municipality may revise an approved annual budget through an Adjustments Budget.

An Adjustments Budget according to Section 28(2):

- "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 Adjustments Budget must be accompanied by the following in accordance with Section 28(5):

- "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.”*

An Adjustments Budget according to Section 28(3 and 6):

- "(3) *An Adjustment Budget must be in a prescribed format*
- (6) *Municipal taxes and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan - section 28(6).”*

As mentioned above, the MFMA Section 28 (3) refers to a prescribed format according to which the adjustment budget is required to be prepared. National Treasury has issued MFMA Circular No 51 (**DMS 633560**) in which this prescribed format has been set out. Furthermore, National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare the 2010/2011 Budget as well as the in-year reporting effective from July 2010.

DISCUSSION

Council resolved in terms of CR 7735 dated 24 January 2012 that:

- “3. *a report dealing with the Adjustments Budget, in terms of Section 28 of the Municipal Finance Management Act be submitted to Council; ...”*

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of the Municipal Budget and Reporting Regulations in both printed and electronic formats.

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PART 1 - ADJUSTMENTS REPORT

1. MAYOR'S REPORT

The Mayor's report (**DMS 781799**) will be presented at the Executive Committee meeting.

2. RESOLUTIONS

Refer to recommendations of this report.

3. EXECUTIVE SUMMARY

The following table represents an Executive Summary for the 2011/2012 Draft Adjustments Budget:

	Adopted 2011/2012 Budget	Proposed 2011/2012 Adjustment Budget (Mid-year results)	2011/2012 Draft Adjustment Budget	(Decrease) / Increase
	R '000	R '000	R '000	R '000
Revenue	1 861 270	1 732 541	1 732 594	(53)
Expenditure	1 859 685	1 773 636	1 747 653	(25 983)
(Deficit)	1 585	(41 095)	(15 059)	(26 036)

The following are significant increases and decreases in revenue and expenditure. Full explanations are provided for in the report under section "Adjustments to Budget funding".

The decrease in Revenue is as a result of the following key issues:

- ❑ Decrease in revenue from sale of electricity = R118 million
- ❑ Decrease in revenue from sale of water = R20 million
- ❑ Decrease in revenue from sanitation fees = R1 million
- ❑ Increase in revenue from refuse removal fees = R1,3 million
- ❑ Inclusion of operating grants for Primary Health subsidy amounting to R4,8 million and Environmental Health subsidy of R4,3 million.

The decrease/increase in Expenditure is as a result of the following key issues:

- ❑ Decrease in Electricity Purchases = R104 million
- ❑ Decrease in finance charges = R5 million (external loan to be taken up - reduced to R58m)
- ❑ Increase in depreciation and Offsetting of Depreciation = R25 million
- ❑ Increase in security expenditure = R2,8m

The table below depicts further decreases and increases in revenue and expenditure.

(Decreases)/Increases in revenue and expenditure		
	Revenue	Expenditure
	R' 000	R' 000
Approved 2011/2012 Budget	1 861 270	1 859 685
Assessment Rates	5 870	
Interest on Investments	605	
Sale of Electricity	(117 996)	
Sale of Water	(19 960)	
Sanitation fees	(1 000)	
Refuse removal fees	1 300	
Agency services	1 400	
Rental of facilities and equipment	5 977	
Operating Grants and Subsidies - Other Grants	10 530	
Other net effect of Increases and (Decreases) in Revenue	(15 402)	
Employee Related Costs		(4 214)
Employee Related Costs (Overtime)		3 637
Remuneration of Councillors		964
Bulk Purchases Electricity		(103 867)
Bulk Purchases on water		436
Repairs and Maintenance		(20 150)
Interest Paid on external loans		(4 839)
Depreciation and Offsetting of Depreciation		25 422
Security		2 866
Other net effect of Increases and (Decreases)		(12 287)
Draft 2011/2012 Adjustments Budget	1 732 594	1 747 653

Below is a summary indicating the 2011/2012 Draft Adjustment Capital Budget.

Adopted Budget 2011/2012	Proposed 2011/2012 Adjustment Budget (Mid-year results)	2011/2012 Draft Adjustment Budget	Actual expenditure at 31/01/2012	% spent / adj. budget
R '000	R '000	R '000	R '000	
220 734	169 889	166 771	22 364	13,41%

Funded as follows:

Type of funding	Adopted Budget 2011/2012	Proposed 2011/2012 Adjustment Budget (Mid-year results)	2011/2012 Draft Adjustment Budget	Actual expenditure at 31/01/2012	% spent / adj. budget
	R '000	R '000	R '000	R '000	
External loans	100 000	57 845	58 701	0	0%
Capital replacement reserve	6 652	8 238	8 264	1 264	15%
MIG	68 824	68 824	68 824	15 390	22%
Other Government Grants	27 758	20 783	20 783	0	0%
Public Contributions	13 500	6 199	6 199	1 808	29%
Reserves	4 000	8 000	4 000	3 901	97%
Total	220 734	169 889	166 771	22 364	13%

The 2011/2012 Adjustments operational budget amounting to **R1 747 653 000** comprises of the following elements:

Expenditure per category	Adopted Budget 2011/2012	% of Budget	2011/2012 Draft Adjustment Budget	% of Adj. Budget	Actual Expenditure at 31/01/2012
	R'000		R'000		R'000
Employee related costs	410 824	22,09%	410 247	23,47%	230 239
Remuneration of Councillors	15 587	0,84%	16 551	0,95%	9 264
Debt Impairment	646	0,03%	745	0,04%	0
Bulk Purchases - Electricity	804 610	43,27%	700 743	40,10%	425 372
Bulk Purchases - Water	83 435	4,49%	83 871	4,80%	47 004
Contracted Services	79 164	4,26%	80 654	4,61%	44 346
Other Expenditure	300 472	16,16%	298 319	17,07%	167 727
Transfers and grants	6 950	0,37%	6 760	0,39%	3 307
Repairs and maintenance	226 309	12,17%	206 159	11,80%	108 689
Finance Charges	95 844	5,15%	90 413	5,17%	55 909
Depreciation and Offsetting of depreciation	69 751	3,75%	95 765	5,48%	40 688
Contributions to Capital Replacement Reserve (CRR)	32 444	1,74%	32 444	1,86%	18 926
Contributions Other	93 123	5,01%	93 123	5,33%	54 442
Recharged	(359 473)	(19,33%)	(368 141)	(21,06%)	(202 168)
TOTAL	1 859 685	100%	1 747 653	100%	1 003 745

The source of funding the above is made up of the following revenue categories:

Revenue per category	Adopted Budget 2011/2012	% of Budget	2011/2012 Draft Adjustment Budget	% of Adj. Budget	Actual Revenue at 31/01/2012
	R'000		R'000		R'000
Rates	198 780	10,68%	204 650	11.81%	126 328
Service Charges - Electricity Revenue	1 078 996	57.97%	961 000	55,47%	572 062
Service Charges - Water Revenue	160 700	8,63%	140 740	8,12%	78 148
Service Charges - Sanitation Revenue	64 400	3,46%	45 700	2,64%	35 902
Service Charges - Refuse Revenue	44 400	2,39%	63 400	3,66%	26 827
Service Charges - Other Revenue	11 514	0,62%	12 209	0,70%	9 236
Operating Grants and Subsidies - Equitable Share	161 654	8,69%	161 654	9,33%	94 298
Operating Grants and Subsidies - Other Grants	8 249	0,44%	18 779	1,08%	1 326
Rental of facilities and equipment	7 119	0,38%	13 096	0,76%	7 955
Interest Received - External Investments	595	0,03%	1 200	0,07%	864
Interest Received - Outstanding debtors	1 419	0,08%	1 360	0,08%	789
Fines	2 053	0,11%	2 047	0,12%	1 444
Licenses and permits	1 600	0,09%	1 639	0,09%	995
Agency services	3 900	0,21%	5 300	0,31%	3 448
Electricity transfer to Rates Service	93 329	5,01%	93 329	5,39%	54 442
Other Revenue	22 562	1,21%	6 491	0,37%	14 683
TOTAL	1 861 270	100%	1 732 594	100%	1 028 747

4. **ADJUSTMENTS BUDGET STATEMENT TABLES**

The following monthly budget statement tables (**DMS 754866**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table B1	Adjustments Budget Summary	A
Table B2	Adjustments Budget Financial Performance (Standard Classification)	B
Table B2B	Adjustments Budget Financial Performance (Detail) (Standard Classification)	C
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Table B10 and Table SB3 have not been completed by the relevant departments.

PART 2 - SUPPORTING DOCUMENTATION

5. ADJUSTMENTS TO BUDGET ASSUMPTIONS

5.1 Capital

As per Council Resolution 7730 dated 20 November 2011 (RPT 151191), Council approved a revised Critical projects list funded by external loans (EFF) for the 2011/2012 final approved capital budget

In terms of the above resolution MFMA section 46 provisions have commenced. Tenders have closed and further provisions of Section 46 are currently being followed.

5.2 Operating

All operating line items were reviewed by the Financial Services management.

In totality the operating budget expenditure has been reduced by R112 million and the revenue budget by R128 million. This has resulted in a deficit of R15 million.

6. ADJUSTMENTS TO BUDGET FUNDING

6.1 Capital Budget By Function

Function	Adopted Budget 2011/2012	2011/2012 Draft Adjustment Budget	Savings / (Over) expenditure	Actual expenditure as at 31/01/2012
	R'000	R'000	R'000	R'000
Budget and Treasury Office	340	0	340	0
Corporate Services	15 318	30 816	(15 498)	147
Community and Social Services	1 169	832	337	190
Planning and Development	0	2	(2)	2
Housing	20 000	20 000	0	0
Public Safety	2 321	1 455	866	4
Sport and Recreation	2 230	2 313	(83)	23
Road Transport	29 300	16 321	12 979	2 234
Electricity	23 243	12 343	10 900	2 556
Water	48 194	19 854	28 340	2 681
Waste Water Management	77 419	62 834	14 585	14 527
Waste Management	1 200	0	1 200	0
Total	220 734	166 771	53 963	22 364

6.2 Capital Budget by Source of Funding

Type of Funding	Adopted Budget 2011/2012	2011/2012 Draft Adjustment Budget	Savings / (Over) expenditure	Actual expenditure as at 31/01/2012
	R'000	R'000	R'000	R'000
External loans	100 000	58 701	41 299	0
Capital replacement reserve	6 652	8 264	1 612	1 287
MIG	68 824	68 824	0	15 367
Other Government Grants	27 758	20 783	6 975	0
Public Contributions	13 500	6 199	7 301	1 808
Reserves	4 000	4 000	0	3 901
Total	220 734	166 771	53 963	22 364

A detail of the revised adjustment 2011/2012 Capital Budget (**DMS 776940**) is attached on **Annexure AH**.

However, the following table depicts all additional capital projects identified as critical by the departments and have been incorporated into the adjustment budget 2011/2012.i.e part of the R166 771 000 above.

Vote number	Responsible Department	Source of Funding	Project Description	2011/2012 Draft Adjustment Budget	Reason
				R	
202/536/04	Community Services and Health	CRR	Machinery and Equipment - Clock Machine	6 500	Purchase of Clock Machine for eSikhaleni Cemetery for time management of employees.
205/544/0	Community Services and Health	CRR	Office Furniture - Heavy duty chairs	4 300	Purchase of 2 heavy duty chairs for control room operators at Fire department.
211/536/05	Municipal Manager	CRR	Machinery and Equipment - Website design	100 000	Appointment of service provider for the redesign of Council's website.
213/536/01	City Development	CRR	Machinery and Equipment - GPS	2 400	Purchase of 2 GPS for field work.
219/532/50	Infrastructure and Technical Services	CRR	Jet master Braai/Lounge Area	6 600	Prior year outstanding invoice for professional fees paid.
219/532/72	Infrastructure and Technical Services	CRR	Land and Buildings - Fencing Alton Depot	10 000	Replacement of fencing to be done at Northern Service Centre
219/532/73	Infrastructure and Technical Services	CRR	Land and Buildings - Second Floor	318 100	Renovations of offices at Richards Bay Civic Centre for Infrastructure and Technical Services department.
219/532/75	Infrastructure and Technical Services	CRR	Land and Buildings - Air conditioners	8 000	Replacement of air conditioners at Richards Bay Civic Centre
219/536/04	Infrastructure and Technical Services	CRR	Machinery and Equipment	8 200	Installation of CCTV Cameras at Parking areas
219/536/05	Infrastructure and Technical Services	CRR	Machinery and Equipment	7 500	Installation of CCTV Cameras outside Political officer bearers offices
222/572/56	Infrastructure and Technical Services	CRR	Upgrading storm water drainage - Ngwelezane	(78 600)	Overpayment of contract payment in the 2010/2011 financial year. This amount has been refunded by the contractor.
224/532/52	Community Services and Health	CRR	RBCC Improvement to club facilities	1 050 000	The municipality's legal obligation to replace the old workshop that was demolished during renovations at the RBCC club facilities in terms of sale agreement addendum. Funding has been received from prior year's profits of estate sales.

Vote number	Responsible Department	Source of Funding	Project Description	2011/2012 Draft Adjustment Budget	Reason
				R	
227/536/0	Community Services and Health	CRR	Machinery and Equipment	18 000	Purchase of 3 Malibu rescue crafts for the beach
243/536/08	Infrastructure and Technical Services	CRR	Machinery and Equipment	50 000	Purchase of electric hoist for the removal and replacement of pumps at the various pump stations.
243/536/09	Infrastructure and Technical Services	CRR	Machinery and Equipment	122 000	Replacement of submersible pumps at various pump stations.
245/516/02	City Development	CRR	Planning - Central Industrial Area	10 000	Final Invoice now due to consultant as EIA report is finalised.
255/532/22	Infrastructure and Technical Services	CRR	Electricity - Impala/Polaris 132 kV Refurbishment	238 400	Prior year outstanding invoice paid.
255/572/11	Infrastructure and Technical Services	CRR	Electricity - 132 kV supply to Cygnus Refurbishment	1 052 000	Prior year outstanding invoice paid.
259/536/13	Infrastructure and Technical Services	CRR	Water - Machinery and Equipment	110 000	Purchase of de-watering pump for Ngwelezane water pump station.
262/536/0	Infrastructure and Technical Services	CRR	Water Services Authority - Machinery and Equipment	5 000	Replacement of steam bath for the laboratory.
273/536/09	Community Services and Health	CRR	Parks - Machinery and Equipment	8 500	Purchase of Clock Machine and Fridge/Freezer for Parks Depot.
273/544/0	Community Services and Health	CRR	Parks - Office Furniture	6 900	Purchase of steel lockers for Parks Depot
274/536/0	Infrastructure and Technical Services	CRR	Water and Sanitation - Machinery and Equipment	31 500	Purchase of finger print clock machine, extension ladder and brush cutter for Water and Sanitation Depot.
274/544/0	Infrastructure and Technical Services	CRR	Water and Sanitation - Office Furniture	17 600	Purchase of furniture for standby quarters for Water and Sanitation Depot.
277/536/01	Corporate Services	CRR	Training - Machinery and Equipment	10 000	Purchase of digital recorders for use in Human Resources department.
282/532/16	Corporate Services	CRR	Land and Buildings - Data points	700	Installation at network data

Vote number	Responsible Department	Source of Funding	Project Description	2011/2012 Draft Adjustment Budget	Reason
				R	
282/536/35	Corporate Services	CRR	Machinery and Equipment - IT Equipment	50 100	Purchase of workstations for Tourism staff.
282/536/39	Corporate Services	CRR	Machinery and Equipment - LCD Screens	16 000	Purchase of LCD screens for Financial Services (Metered Services).
282/536/45	Corporate Services	CRR	Machinery and Equipment - Internal CCTV Cameras	130 000	Purchase of CCTV cameras for Water and Sewerage Alton depot.
282/536/45	Corporate Services	CRR	Machinery and Equipment - Printer	1 700	Purchase of printer for the Beach offices.
Total Additional projects - Capital Replacement Reserve				3 321 400	
219/632/34	Corporate Services	EFF	Machinery and Equipment - IT Equipment	12 000	Upgrade ITS secretary office IT equipment
243/536/05	Infrastructure and Technical Services	EFF	Machinery and Equipment - Pumpstations	58 400	Purchase of Gantry
271/600/94	Infrastructure and Technical Services	EFF	Mechanical Lift for V0483	30 000	Prior year outstanding invoice to be paid.
271/600/95	Infrastructure and Technical Services	EFF	10 x 20 m3 Rotopress	20 758 400	In terms of CR 7488 dated 6 September 2011, Council resolved to procure 10 solid waste trucks. Original budget was for R3 720 000, additional funding of R17 038 400 is required.
271/600/96	Infrastructure and Technical Services	EFF	Replacement of Mayoral vehicle - NRB1	750 000	In terms of CR 7741 dated 24 January 2012, Council resolved to replacement the Mayoral vehicle to be funded from external loan.
272/636/0	Infrastructure and Technical Services	EFF	Machinery and Equipment - Gantry	5 200	Purchase of Hydraulic Crimper for Electrical Engineers
282/632/xx	Corporate Services	EFF	Land and Buildings - Data Backup system (Net backup)	1 007 000	In terms of CR 7456 dated 23 September 2011, Council resolved that funds be provided in the 2011/2012 Adjustment budget to fund these critical IT projects.

Vote number	Responsible Department	Source of Funding	Project Description	2011/2012 Draft Adjustment Budget	Reason
				R	
282/632/xx	Corporate Services	EFF	Land and Buildings - Sentinel - Security information and event management	1 400 000	In terms of CR 7456 dated 23 September 2011, Council resolved that funds be provided in the 2011/2012 Adjustment budget to fund these critical IT projects.
282/632/xx	Corporate Services	EFF	Land and Buildings - Software Licensing compliance	1 400 000	In terms of CR 7456 dated 23 September 2011, Council resolved that funds be provided in the 2011/2012 Adjustment budget to fund these critical IT projects.
282/632/xx	Corporate Services	EFF	Land and Buildings - DMS Archives compliance	119 000	In terms of CR 7456 dated 23 September 2011, Council resolved that funds be provided in the 2011/2012 Adjustment budget to fund these critical IT projects.
282/636/18	Corporate Services	EFF	Machinery and Equipment - IT Equipment	160 000	Replacement of IT equipment in Council chambers.
Total Additional projects - External Loan funds				25 700 000	
282/836/04	Corporate Services	GOV	Machinery and Equipment - Internal CCTV Cameras	182 600	Purchase of CCTV cameras for various Finance department offices.
Total Additional projects - Government grant funds				182 600	
234/832/04	Infrastructure and Technical Services	MIG	Land and Buildings - MIG VAT portion of grant	1 200 000	Council's own revenue, used to Counter fund MIG capital projects
246/884/05	Infrastructure and Technical Services	MIG	Land and Buildings - MIG VAT portion of grant	6 967 000	Council's own revenue, used to Counter fund MIG capital projects
282/832/07	Infrastructure and Technical Services	MIG	Machinery and Equipment - IT Equipment	285 000	Purchase of IT Equipment for GIS section.
Total Additional projects - MIG grant funds				8 452 000	
TOTAL				37 656 000	

6.3 Operating Revenue by Function

	Adopted Budget 2011/2012	2011/2012 Draft adjustment Budget	Over collection/ (under collection)	Actual revenue as at 31/01/2012
	R'000	R'000	R'000	R'000
Executive and Council	795	1 665	870	200
Budget and Treasury Office	300 334	306 548	6 214	185 343
Corporate Services	5 529	9 863	4 335	7 645
Community and Social Services	5 501	6 147	646	4 373
Sport and Recreation	2 638	3 194	556	2 526
Public Safety	3 946	3 946	0	2 208
Housing	1 000	1 134	134	770
Health	10	9 157	9 147	1 201
Planning and Development	1 244	1 265	22	941
Road Transport	6 779	8 382	1 603	5 438
Electricity	1 089 616	968 628	(120 988)	574 981
Water	291 815	262 319	(29 496)	154 914
Waste Water Management	92 329	89 293	(3 036)	52 262
Waste Management	59 309	60 604	1 294	35 517
Other	425	449	24	428
Total	1 861 270	1 732 594	(128 676)	1 028 746

6.4 Operating Revenue by Source

	Adopted Budget 2011/2012	2011/2012 Draft adjustment Budget	Over collection/ (under collection)	Actual revenue as at 31/01/2012
	R'000	R'000	R'000	R'000
Rates	198 780	204 650	5 870	126 328
Service Charges - Electricity Revenue	1 078 996	961 000	(117 996)	572 062
Service Charges - Water Revenue	160 700	136 940	(23 760)	78 148
Service Charges - Sanitation Revenue	64 400	63 400	(1 000)	35 902
Service Charges - Refuse Revenue	44 400	45 700	1 300	26 827
Service Charges - Other Revenue	11 514	12 209	695	9 236
Operating Grants and Subsidies - Equitable Share	161 654	161 654	0	94 298
Operating Grants and Subsidies - Other Grants	8 249	18 008	9 759	1 326
Rental of facilities and equipment	7 119	11 016	3 897	7 955
Interest Received - External Investments	595	1 200	605	864
Interest Received - Outstanding debtors	1 419	1 322	(97)	789
Fines	2 053	2 047	(6)	1 444
Licenses and permits	1 600	1 639	39	995

	Adopted Budget 2011/2012	2011/2012 Draft adjustment Budget	Over collection/ (under collection)	Actual revenue as at 31/01/2012
	R'000	R'000	R'000	R'000
Agency services	3 900	5 300	1400	3 448
Electricity transfer to Rates Service	93 329	93 329	0	54 442
Other Revenue	22 562	13 180	(9 382)	14 683
TOTAL	1 861 270	1 732 594	(128 676)	1 028 747

Below are explanations for major increase/decreases in revenue:

- ❑ Property Rates **increased** by **R5,8 million**. Since the compilation of the 2011/2012 budget, the Council has received two Supplementary Valuation Rolls that resulted in the increase of valuations and property rates income.
- ❑ Service Charges Electricity revenue **decreased** by **R118 million**.
 - Reduction In consumption across the whole consumer base mainly due to the “recession”.
 - Mondi is active in co-generation and is only consuming about 50% of their normal consumption.
 - TATA STEEL is exploiting Eskom’s seasonal tariff facility - shutting down production totally in June to Aug but accelerating in the remainder of the year.
- ❑ Service Charges Water revenue **decreased** by **R24 million**.
 - This is attributed to the decrease in consumption figures across whole consumer base once again due to the “recession”.
 - Less water production due to abstraction drought situations.
 - Significant water losses due to faulty meters, estimation of meter readings, pipe bursts and water leaks.
- ❑ Rental of facilities and equipment revenue **increased** by **R4 million**. During the budget of the 2011/2012 it was expected that the transfer of the IDZ properties would take place in the first six months of the 2011/2012 financial year. This has not materialised and therefore Council will continue to occupational rental income until the transfer is finalised.
- ❑ Operating Grants and Subsidies - Other Grants
 - Environmental Health Services operating grant = R4,3 million. In terms of Council Resolution 7408 dated 6 September 2011, Council signed a Service Level Agreement with uThungulu District Municipality.
 - Primary Health Care Services operating subsidy = R4,8 million. Council signed a Service Level Agreement with KZN Province Health Department.

6.5 Operating Expenditure by Function

	Adopted Budget 2011/2012	2011/2012 Draft adjustment Budget	(Decrease) / Increase expenditure	Actual expenditure as at 31/01/2012
	R'000	R'000	R'000	R'000
Executive and Council	10 639	10 834	195	7 066
Budget and Treasury Office	17 784	31 942	14 157	4 519
Corporate Services	30 130	29 194	(936)	16 373
Community and Social Services	32 586	31 319	(1 268)	15 810
Sport and Recreation	76 072	73 754	(2 318)	40 721
Public Safety	80 476	72 494	(7 982)	40 031
Housing	3 890	3 192	(698)	1 318
Health	20 340	21 134	795	11 156
Planning and Development	17 576	18 268	692	10 012
Road Transport	120 989	107 982	(13 007)	56 852
Environmental Protection	8 106	8 185	79	4 348
Electricity	1 030 152	921 445	(108 707)	556 440
Water	251 739	252 693	953	142 972
Waste Water Management	94 514	97 778	3 263	56 430
Waste Management	64 627	67 377	2 750	39 650
Other	65	63	(2)	47
Total	1 859 685	1 747 653	(112 032)	1 003 745

6.6 Operating Expenditure by Type

EXPENDITURE PER CATEGORY	Adopted Budget 2011/2012	2011/2012 Draft adjustment Budget	(Decrease)/ Increase expenditure	Actual expenditure as at 31/01/2012
	R'000	R'000	R'000	R'000
Employee related costs	410 824	410 247	(577)	230 239
Remuneration of Councillors	15 587	16 551	964	9 264
Debt Impairment	646	745	99	0
Bulk Purchases - Electricity	804 610	700 743	(103 867)	425 372
Bulk Purchases - Water	83 434	83 871	437	47 004
Contracted Services	79 164	80 654	1 490	44 346
Other Expenditure	300 472	298 319	(2 153)	167 727
Transfers and grants	6 950	6 760	(190)	3 307
Repairs and maintenance	226 309	206 159	(20 150)	108 689
Finance Charges	95 844	90 413	(5 431)	55 909
Depreciation and Offsetting of depreciation	69 751	95 765	26 014	40 688
Contributions to Capital Replacement Reserve (CRR)	32 444	32 444	0	18 926
Contributions Other	93 123	93 123	0	54 442
Recharged	(359 473)	(368 141)	(8 668)	(202 168)
TOTAL	1 859 685	1 747 653	(112 032)	1 003 745

Below are explanations for major increase/decreases in expenditure:

- ❖ Included in employee related costs is overtime expenditure, which has **increased** by **R3,6 million**. A few cost centres overtime budgets have been increased in order to provide for anticipated over-expenditure on overtime.
 - Additional budget provision for Water and Sanitation services (074) of R2,4 million
 - Additional budget provision for Refuse Removal and Street Cleaning (032 and 033) of R3,1 million
- ❖ Departments are however required to comply with Council Resolution 7524 dated 4 October 2011 in which Council resolved that:

*“all over-expenditure including overtime must be approved by the Deputy Municipal Manager of the department concerned **prior** to any costs being incurred;”*
- ❖ Provision for Bulk Electricity Purchases has **decreased** by **R103 million** mainly due to the reduction in consumption as explained above under section 6.4 - Revenue reduction.
- ❖ Contracted Services has **increased** by **R1 490 000**. Provision for security expenditure has increased by R2 866 200 as a result of additional security required for Municipal halls and buildings, sports fields, VIP protection and cash collection costs.
- ❖ Depreciation and Offsetting of depreciation has been **increased** by **R26 million** mainly due to projects that were previously budgeted to be funded through internally generated funds (CRR) but ended up being funded by external loans. This resulted in decrease in depreciation off-set and ultimately increase in net depreciation.
- ❖ Council's 2011/2012 Capital funding was dependent on Council acquiring a loan of R100 million. Council however resolved to reduce this exposure to **R58 million**, resulting in the provision for interest paid being **decreased** by **R5 million**.
- ❖ The most significant increases under Other Expenditure category are on **Rent equipment and vehicles (Refuse vehicles) and internal charges**. However, other expenditure in totality has decreased by R2 million.

6.7 Cash Flow Situation

Currently the bank balances of Council are monitored on a daily basis. Therefore all efforts in cost cutting measures are essential in maintaining a positive cash bank balance. The cash flow recovery plan interventions in terms of Council Resolution 6294 dated 1 September 2009 must still be enforced and maintained.

The revised internal memorandum number 4 on Cash Flow Recovery (DMS 775918) was workshopped and issued to management on 23 February 2012. This memorandum sets out further cash flow interventions in order to curtail expenditure.

7. ADJUSTMENTS TO EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES

Refer to **Annexure T - V** (Table SB 7 - SB 9).

8. ADJUSTMENTS TO ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Refer to **Annexure W** (Table SB 10).

9. ADJUSTMENTS TO COUNCILLORS ALLOWANCES AND EMPLOYEE BENEFITS

Refer to **Annexure X** (Table SB 11).

10. ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

The SDBIP has been broken down into five components. These are:

- Component 1: Monthly projections of revenue (including capital grants) to be collected for each source (**Annexure AI**).
- Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote (**Annexure AJ**).
- Component 3: Quarterly projections of service delivery targets and performance indicators for each vote - No changes.
- Component 4: Ward information for expenditure and service delivery is not presented in this report. This component requires that Component 3 be divided into wards, which in reality is not practical and possible at present. Clarity has been requested from National Treasury on the practicality of producing this component. National Treasury has indicated that they are investigating a revised format of the SDBIP.
- Component 5: Detailed capital works plan broken down into wards over three years (**Annexure AK**).

11. ADJUSTMENTS TO CAPITAL EXPENDITURE

Detail of the revised Adjustments 2011/2012 Capital Budget (**DMS 776940**) is attached on **Annexure AH**.

12. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure AL (DMS 781940)**.

ENVIRONMENTAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

This is dealt with in detail throughout the report.

COMMENTS OF THE CHIEF FINANCIAL OFFICER

Refer to the Executive Summary contained in this report.

RECOMMENDED THAT:

1. the 2011/2012 Multi-year Adjustments Budget be approved;
2. the report on the 2011/2012 Adjustments Budget be submitted to both the National Treasury and Provincial Treasury;
3. it be noted that any adjustments made to the 2011/2012 Operating Budget do not result in any changes to the municipal taxes and tariffs; and
4. the following projects identified for the 2011/2012 financial year be approved and incorporated into Council's Adjusted 2011/2012 Capital Budget.

Vote number	Source of Funding	Project Description	2011/2012 Draft Adjustment Budget
			R
202/536/04	CRR	Machinery and Equipment - Clock Machine	6 500
205/544/0	CRR	Office Furniture - Heavy duty chairs	4 300
211/536/05	CRR	Machinery and Equipment - Website design	100 000
213/536/01	CRR	Machinery and Equipment - GPS	2 400
219/532/50	CRR	Jet master Braai/Lounge Area	6 600
219/532/72	CRR	Land and Buildings - Fencing Alton Depot	10 000
219/532/73	CRR	Land and Buildings - Second Floor	318 100
219/532/75	CRR	Land and Buildings - Air conditioners	8 000
219/536/04	CRR	Machinery and Equipment	8 200
219/536/05	CRR	Machinery and Equipment	7 500
222/572/56	CRR	Upgrading storm water drainage - Ngwelezane	(78 600)
224/532/52	CRR	RBCC Improvement to club facilities	1 050 000
227/536/0	CRR	Machinery and Equipment	18 000
243/536/08	CRR	Machinery and Equipment	50 000
243/536/09	CRR	Machinery and Equipment	122 000
245/516/02	CRR	Planning - Central Industrial Area	10 000
255/532/22	CRR	Electricity - Impala/Polaris 132 kV Refurbishment	238 400
255/572/11	CRR	Electricity - 132 kV supply to Cygnus Refurbishment	1 052 000
259/536/13	CRR	Water - Machinery and Equipment	110 000
262/536/0	CRR	Water Services Authority - Machinery and Equipment	5 000
273/536/09	CRR	Parks - Machinery and Equipment	8 500
273/544/0	CRR	Parks - Office Furniture	6 900

Vote number	Source of Funding	Project Description	2011/2012 Draft Adjustment Budget
			R
274/536/0	CRR	Water and Sanitation - Machinery and Equipment	31 500
274/544/0	CRR	Water and Sanitation - Office Furniture	17 600
277/536/01	CRR	Training - Machinery and Equipment	10 000
282/532/16	CRR	Land and Buildings - Data points	700
282/536/35	CRR	Machinery and Equipment - IT Equipment	50 100
282/536/39	CRR	Machinery and Equipment - LCD Screens	16 000
282/536/45	CRR	Machinery and Equipment - Internal CCTV Cameras	130 000
282/536/45	CRR	Machinery and Equipment - Printer	1 700
219/632/34	EFF	Machinery and Equipment - IT Equipment	12 000
243/536/05	EFF	Machinery and Equipment - Pumpstations	58 400
271/600/94	EFF	Mechanical Lift for V0483	30 000
271/600/95	EFF	10 x 20 m3 Rotopress	20 758 400
271/600/96	EFF	Replacement of Mayoral vehicle - NRB1	750 000
272/636/0	EFF	Machinery and Equipment - Gantry	5 200
282/632/xx	EFF	Land and Buildings - Data Backup system (Net backup)	1 007 000
282/632/xx	EFF	Land and Buildings - Sentinel - Security information and event management	1 400 000
282/632/xx	EFF	Land and Buildings - Software Licensing compliance	1 400 000
282/632/xx	EFF	Land and Buildings - DMS Archives compliance	119 000
282/636/18	EFF	Machinery and Equipment - IT Equipment	160 000
282/836/04	GOV	Machinery and Equipment - Internal CCTV Cameras	182 600
234/832/04	MIG	Land and Buildings - MIG VAT portion of grant	1 200 000
246/884/05	MIG	Land and Buildings - MIG VAT portion of grant	6 967 000
282/832/07	MIG	Machinery and Equipment - IT Equipment	285 000
TOTAL			37 656 000