

OFFICE OF THE MAYOR

28 March 2019

For submission to Council

SUBMISSION OF THE ADJUSTMENT BUDGET FOR THE MTREF PERIOD

2018/19 TO 2020/21

PURPOSE

The Mayor has received the mid-year assessment of performance, and decided that an adjustment budget be prepared and submitted to council.

BACKGROUND

The mid-year assessment of Mohokare Local Municipality has been performed and this gave rise to the instruction from the Mayor that an adjustment budget is to be prepared.

The adjustment budget is tabled in the following formats:

Adjustment Budget Schedule

- B-Schedule

See Annexure A

Applicable legislation and policies:

MFMA Act 56 of 2003

In terms of section 28 (1) the municipality may revise an approved annual budget through an adjustment budget.

Furthermore in terms of section 28.(2) an adjustment budget:

- Must adjust the revenue and expenditure estimates downwards if there is material under collection of revenue during the current year.
- May appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for.
- May, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality; may authorize the utilization of projected savings in one vote towards spending under another vote.

- d) May authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council.
- e) May correct any errors in the annual budget.
- f) May provide for any other expenditure within a prescribed framework.
- g) An adjustments budget must be in a prescribed form.
- h) 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.
- i) When an adjustments budget is tabled, it must be accompanied by:
 - o An explanation how the adjustments budget affects the annual budget; - a motivation of Any material changes to the annual budget;
 - o An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years;
 - o Any other supporting documentation that may be prescribed.
- j) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- k) Section 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 adjustment budget.

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality’s approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act;

Mid-year budget and performance assessment

72. (1) The accounting officer of a municipality must by 25 January of each year—

- (a) assess the performance of the municipality during the first half of the financial year, taking into account—
 - (i) the monthly statements referred to in section 71 for the first half of the financial year;
 - (ii) the municipality’s service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
 - (iii) the past year’s annual report, and progress on resolving problems identified in the annual report; and
 - (iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and

- (b) submit a report on such assessment to—
- (i) the mayor of the municipality;
 - (ii) the National Treasury; and
 - (iii) the relevant provincial treasury.

Municipal Budget Circulars for the 2018/19 MTREF

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2018/19 Budgets and Medium Term Revenue and Expenditure Framework (MTREF). It must be read together with MFMA Circulars No. 48, 51, 54, 66, 67, 70, 74 and 75.

DISCUSSION – PREPARATION AND OTHER DETAILS:

Executive summary

Description	Current year 2017/18		
	Original Budget	Adjustment Budget	Movement
Financial Performance			
<i>Revenue from non-exchange transactions</i>			
Property Rates	7,981,000	7,981,000	-
Fines	18,900,000	33,900,000	15,000,000
Government Grants and subsidies received - Operational	66,393,000	66,393,000	-
<i>Revenue from exchange transactions</i>			
Service charges	65,002,054	65,002,054	-
Rental of facilities and equipment	955,332	955,332	-
Interest earned - external investments	900,000	900,000	-
Interest earned - outstanding debtors	8,744,792	8,744,792	-
Dividends received	10,000	10,000	-
Other income	17,645,000	12,945,618	- 4,699,382
Total Revenue	186,531,178	196,831,796	10,300,618
<i>Expenditure</i>			
Employee related costs	73,271,728	74,850,327	1,578,599
Remuneration of Councillors	4,148,312	4,148,312	-
Depreciation and amortisation	31,721,000	26,721,000	- 5,000,000
Debt impairment	22,690,500	20,490,500	- 2,200,000
Other Materials	12,102,701	11,481,201	- 621,500
Contracted Services	6,695,000	7,591,000	896,000
Finance Cost	4,879,000	5,715,000	836,000
Bulk Purchases	26,692,685	26,692,685	-
General Expenditure	18,981,857	18,991,541	9,684
Total expenditure	201,182,783	196,681,566	- 4,501,217
<i>Operational Surplus/ (Deficit)</i>	- 14,651,605	150,230	14,801,835
Transfers received (Conditional Grant funding) - Capital Projects	104,708,000	68,208,000	- 36,500,000
<i>Surplus/ (Deficit) for the year</i>	90,056,395	68,358,230	- 21,698,165

Expected expenditure

General comments:

All expenditure items were evaluated on a line by line basis and deductions where applicable was discussed with the relevant directorate.

Salaries

The adjusted salary budget is as follows:

Description	Current year			2017/18 Medium Term Revenue & Expenditure Framework	
	Original Budget	Adjustment budget	Movement	Budget year +1 2018/19	Budget year +2 2019/20
Salaries	45,791,053	46,637,451	846,398	49,902,073	52,896,197
Performance Bonus	-	-	-	-	-
Annual Bonus	3,555,407	3,555,407	-	3,804,285	4,032,543
Allowance - Telephone	129,983	145,774	15,791	155,978	165,337
Allowance - Standby	326,277	337,683	11,406	361,321	383,000
Housing Subsidy	792,403	861,452	69,049	921,754	977,059
Overtime	3,590,220	3,726,962	136,742	3,987,849	4,227,120
Allowance - Other	1,527,974	1,527,974	-	1,634,932	1,733,028
Temporary workers	346,500	346,500	-	370,755	393,000
Allowance - Vehicle	3,207,769	3,408,964	201,195	3,647,591	3,866,447
Industrial Council Levy	27,159	27,406	247	29,324	31,083
Skills Development Levy	577,918	597,344	19,426	639,158	677,508
Ward Allowances	339,200	339,200	-	362,944	384,721
Medical Aid Fund	4,201,009	4,370,779	169,770	4,676,734	4,957,338
Pension Fund	7,430,607	7,492,416	61,809	8,016,885	8,497,898
UIF	428,249	475,015	46,766	508,266	538,762
EPWP - Salaries	1,000,000	1,000,000	-	1,070,000	1,134,200
Councillors - Allowance	3,180,000	3,180,000	-	3,402,600	3,606,756
Councillors - Telephone Allowance	291,060	291,060	-	311,434	330,120
Councillors - Travelling Allowance	420,000	420,000	-	449,400	476,364
Councillors - SDL	55,635	55,635	-	59,529	63,101
Councillors - Medical Aid	138,017	201,617	63,600	215,730	228,674
Councillors - Pension Fund	63,600	-	63,600	-	-
	77,420,040	78,998,639	1,578,599	84,528,543	89,600,256

- The budget for salaries has increased with 2.15% (R1 578 599) from the original budgeted amount.
- We believe that this increase was brought along by sufficient budgeting in terms of employee costs.
- Main reason for the movements in employees costs can be attributed to the following:

- An increase in the budget for salaries and other allowances can be seen from inspecting the table above. This increase relates mainly to the increase in medical aid fund contributions by the relevant medical schemes. The increase in the vehicle allowances of employees also had an impact on the increase in employee related expenditure.
- Provision is made for all employees as at 31 January 2019.
- The ratio of employee related costs to operating income stands at 64.44% (2017/18: 61.80%). This ratio is calculated taking into consideration Electricity sales as allocated to Mohokare Local Municipality through the consolidated budget received from Centlec.
- When the amount relating to Electricity sales are excluded the percentage increases to 90.03% (2017/18: 89.38%).

Depreciation and Amortisation:

The decrease in depreciation and amortization were made based on the actual outcome of the PY audit (R22,8million), which indicated that the Municipality has over budgeted for Depreciation expenses. The adjusted repairs & maintenance budget is as follows:

Operational & Capital Grants with Capital Expenditures

The adjusted grants budget is as follows:

Description	Current year			2017/18 Medium Term Revenue & Expenditure Framework	
	Original Budget	Adjustment budget	Movement	Budget year +1 2018/19	Budget year +2 2019/20
Revenue:					
<i>Operational Grants</i>					
NT Grant - Equitable Share	61,723,000	61,723,000	-	61,606,000	66,009,000
NT Grant - FMG	1,970,000	1,970,000	-	2,155,000	2,415,000
NT Grant - MSIG (Allocation in kind)	1,700,000	1,700,000	-	2,155,000	2,415,000
NT Grant - EPWP	1,000,000	1,000,000	-	-	-
	66,393,000	66,393,000	-	65,916,000	70,839,000
<i>Capital Grants</i>					
NT Grant - MIG	17,708,000	17,708,000	-	19,056,000	19,922,000
NT Grant - WSIG	48,500,000	17,000,000	- 31,500,000	48,500,000	55,000,000
NT Grant - RBIG	38,000,000	33,000,000	- 5,000,000	30,000,000	20,000,000
NT Grant - INEP	500,000	500,000	-	2,000,000	5,000,000
	104,708,000	68,208,000	- 36,500,000	99,556,000	99,922,000
Expenditure:					
<i>Capital Grants</i>					
NT Grant - MIG	17,708,000	17,708,000	-	19,056,000	19,922,000
NT Grant - WSIG	48,500,000	17,000,000	- 31,500,000	48,500,000	55,000,000
NT Grant - RBIG	38,000,000	33,000,000	- 5,000,000	30,000,000	20,000,000
NT Grant - INEP	500,000	500,000	-	2,000,000	5,000,000
	104,208,000	67,708,000	- 36,500,000	99,556,000	99,922,000

- Changes were made to the Municipality's allocated conditional grants as per the breakdown above. (WSIG and RBIG)
- This reduction was based on the slow spending of the Municipality in respect of Capital projects.

FINANCIAL IMPLICATIONS

Should Treasury find that the reporting received from Mohokare Local Municipality is not up to standard, they could withhold Equitable Share hampering the service delivery of Mohokare Local Municipality.

LEGAL IMPLICATIONS

Compliance with Section 28 (1) of the Municipality Finance Management Act No, 56 of 2003


PARTIES CONSULTED

The Municipal Manager
Chief Financial Officer
IDP Manager

RECOMMENDATION

1. It is recommended that Council approves the adjustment budget of the municipality for the financial year 2018/19 as well as the two projected outer years 2019/20 and 2020/21.

COMPILED BY:



BM VALASHIYA
ACTING MAYOR