

## OFFICE OF THE MAYOR

04 March 2021

For submission to Council

### SUBMISSION OF THE ADJUSTMENT BUDGET FOR THE MTREF PERIOD

2020/21 TO 2022/23

#### 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 2020/21 MTREF**

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2020/21 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 2020/21			
	Original Budget	1st Adjustment Budget	2nd Adjustment Budget	Movement
<b>Financial Performance</b>				
<b>Revenue from non-exchange transactions</b>				
Property Rates	7 881 360	7 881 360	7 881 360	-
Fines	35 000 004	35 000 004	35 000 004	-
Government Grants and subsidies received - Operational	77 585 000	89 452 000	89 452 000	-
<b>Revenue from exchange transactions</b>				
Service charges	74 964 024	74 964 024	74 964 024	-
Rental of facilities and equipment	650 000	650 000	650 000	-
Interest earned - external investments	450 000	450 000	450 000	-
Interest earned - outstanding debtors	6 500 000	6 500 000	6 500 000	-
Dividends received	10 000	10 000	5 000	5 000
Other income	15 615 000	15 615 000	15 615 000	-
<b>Total Revenue</b>	<b>218 655 388</b>	<b>230 522 388</b>	<b>230 517 388</b>	<b>- 5 000</b>
<b>Expenditure</b>				
Employee related costs	83 965 214	83 965 214	83 056 950	- 908 264
Remuneration of Councillors	4 616 240	4 616 240	4 616 240	-
Depreciation and amortisation	24 406 848	24 406 848	24 406 848	-
Debt impairment	25 016 280	25 016 280	35 016 280	10 000 000
Finance Cost	8 075 000	8 075 000	8 696 000	621 000
Bulk Purchases	28 470 610	28 470 610	28 470 610	-
Other Materials	10 661 728	10 661 728	9 761 838	- 899 890
Contracted Services	12 083 940	12 083 940	7 847 404	- 4 236 536
General Expenditure	20 606 114	20 606 114	28 446 336	7 840 222
<b>Total expenditure</b>	<b>217 901 974</b>	<b>217 901 974</b>	<b>230 318 506</b>	<b>12 416 532</b>
<b>Operational Surplus/ (Deficit)</b>	<b>753 414</b>	<b>12 620 414</b>	<b>198 882</b>	<b>- 12 421 532</b>
Transfers received (Conditional Grant funding) - Capital Projects	91 773 000	91 773 000	92 553 000	780 000
<b>Surplus/ (Deficit) for the year</b>	<b>92 526 414</b>	<b>104 393 414</b>	<b>92 751 882</b>	<b>- 11 641 532</b>

## *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			2020/21 Medium Term Revenue & Expenditure Framework	
	Original Budget	Adjustment budget	Movement	Budget year +1 2021/22	Budget year +2 2022/23
Salaries	48 123 442	47 942 126	- 181 316	50 339 232	52 856 194
Allowance - Acting	2 172 000	1 917 511	- 254 489	2 013 386	2 114 055
Performance Bonus	-	-	-	-	-
Annual Bonus	3 818 196	3 994 448	176 252	4 194 170	4 403 878
Allowance - Telephone	188 844	92 032	- 96 812	96 634	101 466
Allowance - Standby	381 012	463 576	82 564	486 755	511 093
Housing Subsidy	1 116 036	794 260	- 321 776	833 973	875 672
Overtime	5 069 244	4 834 930	- 234 314	5 076 676	5 330 510
Shift Allowance	-	1 923 298	1 923 298	2 019 463	2 120 436
Allowance - Other	1 358 616	434 289	- 924 327	456 003	478 803
Temporary Workers	346 500	-	- 346 500	-	-
Allowance - Vehicle	5 817 132	4 826 534	- 990 598	5 067 861	5 321 254
Industrial Council Levy	31 128	30 975	- 153	32 524	34 150
Skills Development Levy	679 080	699 232	20 152	734 193	770 903
Ward Allowances	339 204	330 000	- 9 204	346 500	363 825
Medical Aid Fund	4 523 868	5 162 092	638 224	5 420 197	5 691 206
Pension Fund	8 460 876	8 177 243	- 283 633	8 586 105	9 015 410
UIF	540 036	534 405	- 5 631	561 125	589 182
EPWP - Salaries	1 000 000	900 000	- 100 000	945 000	992 250
Councillors - Allowance	3 538 704	3 538 704	-	3 715 639	3 901 421
Councillors Telephone Allowance	323 868	323 868	-	340 061	357 064
Councillors - Travelling Allowance	467 376	467 376	-	490 745	515 282
Councillors - SDL	61 908	61 908	-	65 003	68 254
Councillors - Medical Aid	224 352	224 352	-	235 570	247 348
Councillors - Pension Fund	-	-	-	-	-
	<b>88 581 422</b>	<b>87 673 158</b>	<b>- 908 264</b>	<b>92 056 816</b>	<b>96 659 656</b>

- The budget for salaries has decreased with 0.11% (R 908 264) from the original budgeted amount.

- We believe that this decrease was brought by reducing the salary that was budgeted for the Director Corporate Services since that vacancy is not filled yet and we tried to shift funds from segments that do not perform to segments that we used most.
- Main reason for the movements in employees costs can be attributed to the following:
  - o 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.
- Provision is made for all employees as at 31 January 2021.
- The ratio of employee related costs to operating income stands at 36.03%. This ratio is calculated taking into consideration Operating Grants and 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 41.29%.

#### Debt Impairment:

The increase in debt impairment was made based on the actual outcome of the PY audit (R71,6 million), which indicated that the Municipality has under budgeted for Debt Impairment due to financial constraints.

#### Operational & Capital Grants with Capital Expenditures

The adjusted grants budget is as follows:

Description	Current year				2020/21 Medium Term Revenue & Expenditure Framework	
	Original Budget	1st Adjustment budget	2nd Adjustment budget	Movement	Budget year +1 2021/22	Budget year +2 2022/23
<b>Revenue:</b>						
<i>Operational Grants</i>						
NT Grant - Equitable Share	73 785 000	85 652 000	85 652 000	-	79 609 000	85 029 000
NT Grant - FMG	2 800 000	2 800 000	2 800 000	-	3 000 000	3 200 000
NT Grant - EPWP	1 000 000	1 000 000	1 000 000	-	-	-
	<b>77 585 000</b>	<b>89 452 000</b>	<b>89 452 000</b>	<b>-</b>	<b>82 609 000</b>	<b>88 229 000</b>
<i>Capital Grants</i>						
NT Grant - MIG	17 898 000	17 898 000	17 678 000	- 220 000	19 107 000	19 991 000
NT Grant - WSIG	28 025 000	28 025 000	28 025 000	-	31 000 000	32 488 000
NT Grant - RBIG	40 000 000	40 000 000	40 000 000	-	20 000 000	-
NT Grant - INEP	5 850 000	5 850 000	5 850 000	-	4 321 000	5 200 000
CoGTA Provincial Grant	-	-	1 000 000	1 000 000	-	-
	<b>91 773 000</b>	<b>91 773 000</b>	<b>91 553 000</b>	<b>780 000</b>	<b>74 428 000</b>	<b>57 679 000</b>
<b>Expenditure:</b>						
<i>Capital Grants</i>						
NT Grant - MIG	17 898 000	17 898 000	17 678 000	220 000	19 107 000	19 991 000
NT Grant - WSIG	28 025 000	28 025 000	28 025 000	-	31 000 000	32 488 000
NT Grant - RBIG	40 000 000	40 000 000	40 000 000	-	20 000 000	-
NT Grant - INEP	5 850 000	5 850 000	5 850 000	-	4 321 000	5 200 000
CoGTA Provincial Grant	-	-	1 000 000	1 000 000	-	-
	<b>85 923 000</b>	<b>85 923 000</b>	<b>85 703 000</b>	<b>780 000</b>	<b>74 428 000</b>	<b>57 679 000</b>
<i>Capital expenditure (Own funds)</i>						
Desktops and Laptops	200 000	200 000	300 000	100 000	315 000	330 750
Furniture and Office Equipment	200 000	200 000	100 000	100 000	105 000	110 250
CCA - IT	-	-	20 000	20 000	21 000	22 050
Machinery and Equipment	350 000	350 000	330 000	20 000	346 500	363 825
	<b>750 000</b>	<b>750 000</b>	<b>750 000</b>	<b>-</b>	<b>787 500</b>	<b>826 875</b>

- Changes were made to the Municipality's allocated conditional grants as per the breakdown above. (MIG)
- This reduction was based on the slow spending of the Municipality in respect of Capital projects.
- The municipality received grant from provincial CoGTA to the amount of R 1 000 000, to assist the municipality to purchase water tanker and bell tipper tractor.

## **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 2020/21 as well as the two projected outer years 2021/22 and 2022/23.

**COMPILED BY:**



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N.I. MEHLOMAKULU  
MAYOR