

OFFICE OF THE MAYOR

28 February 2023

For submission to Council

SUBMISSION OF THE ADJUSTMENT BUDGET FOR THE MTREF PERIOD

2022/23 TO 2024/25

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:

- 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 programs already budgeted for.

- c) 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 2022/23 MTREF

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2022/23 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 2022/23		
	Original Budget	1st Adjustment Budget	Movement
Financial Performance			
Revenue from non-exchange transactions			
Property Rates	8 888 013	10 415 167	1 527 154
Fines	13 250 000	13 250 000	-
Government Grants and subsidies received - Operational	92 025 000	92 025 000	-
Revenue from exchange transactions			
Service charges	93 065 476	98 753 358	5 687 882
Rental of facilities and equipment	560 000	560 000	-
Interest earned - external investments	250 000	250 000	-
Interest earned - outstanding debtors	9 584 347	9 584 347	-
Dividends received	12 000	12 000	-
Other income	12 425 150	12 425 150	-
Total Revenue	230 059 986	237 275 022	7 215 036
Expenditure			
Employee related costs	87 809 414	85 362 721	- 2 446 693
Remuneration of Councillors	5 675 734	5 536 592	- 139 142
Depreciation and amortisation	21 899 022	21 899 022	-
Debt impairment	36 767 094	36 767 094	-
Finance Cost	7 056 000	7 056 000	-
Bulk Purchases	27 618 584	26 727 484	- 891 100
Other Materials	1 657 600	970 137	- 687 463
Contracted Services	15 671 400	17 161 679	1 490 279
General Expenditure	19 815 946	22 385 752	2 569 806
Total expenditure	223 970 794	223 866 480	- 104 314
Operational Surplus/ (Deficit)	6 089 192	13 408 542	7 319 350
Transfers received (Conditional Grant funding) - Capital Projects	45 486 000	45 486 000	-
Surplus/ (Deficit) for the year	51 575 192	58 894 542	7 319 350

Expected revenue

The municipality budgeted for all revenue as per the adjustments budget and the Division of Revenue Act. The analysis was done in terms of the following items:

Property rates

Property rates has been adjusted with the levies for revenue in new established areas within the municipality.

Service charges

Service charges has increased due to additional revenue in new established areas within the municipality.

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 prior to completion of adjustment budgets.

Salaries

The adjusted salary budget is as follows:

Description	Current year			2022/23 Medium Term Revenue & Expenditure Framework	
	Original Budget	Adjustment budget	Movement	Budget year +1 2023/24	Budget year +2 2024/25
Salaries	49 732 335	50 672 861	940 526	52 218 952	54 829 899
Remote Allowance	224 796	176 664	- 48 132	236 036	247 838
Allowance - Acting	1 637 743	2 159 613	521 870	1 719 630	1 805 612
Annual Bonus	4 497 937	3 432 825	- 1 065 112	4 722 834	4 958 976
Allowance - Telephone	93 723	79 212	- 14 511	98 409	103 330
Allowance - Standby	1 064 498	1 046 994	- 17 504	1 117 723	1 173 609
Housing Subsidy	801 443	747 608	- 53 835	841 515	883 591
Overtime	4 148 464	2 657 071	- 1 491 393	4 355 887	4 573 682
Shift Allowance	2 104 250	1 812 498	- 291 752	2 209 463	2 319 936
Maintenance Allowance	20 122	19 200	- 922	21 128	22 185
Long Services Bonus	493 983	361 329	- 132 654	518 682	544 616
Allowance - Vehicle	4 754 349	4 725 217	- 29 132	4 992 066	5 241 670
Industrial Council Levy	36 142	32 770	- 3 372	37 949	39 847
Skills Development Levy	624 224	693 450	69 226	655 435	688 207
Ward Allowances	336 000	610 040	274 040	352 800	370 440
Leave Paid-out	390 129	426 833	36 704	409 635	430 117
Medical Aid Fund	5 201 234	5 258 474	57 240	5 461 296	5 734 360
Pension Fund	9 538 139	8 705 443	- 832 696	10 015 046	10 515 798
UIF	507 129	506 184	- 945	532 485	559 110
EPWP - Salaries	933 000	933 000	-	979 650	1 028 633
PMU - Salaries	1 134 335	1 149 185	14 850	1 191 052	1 250 604
Mayor - Allowance	785 156	841 471	56 315	824 414	865 634
Speaker - Allowance	421 126	673 178	252 052	442 182	464 291
Chief Whip - Allowance	325 006	341 746	16 740	341 256	358 319
Councillors - Allowance	3 296 556	2 974 198	- 322 358	3 461 384	3 634 453
Mayor - Telephone Allowance	36 542	40 800	4 258	38 369	40 288
Speaker - Telephone Allowance	27 738	40 800	13 062	29 125	30 581
Chief Whip - Telephone Allowance	36 542	40 800	4 258	38 369	40 288
Councillors Telephone Allowance	396 350	392 400	- 3 950	416 168	436 976
Councillors - Travelling Allowance	165 105	84 153	- 80 952	173 360	182 028
Councillors - SDL	44 746	54 615	9 869	46 983	49 332
Mayor - Medical Aid	26 200	28 960	2 760	27 510	28 886
Chief Whip - Medical Aid	10 480	-	- 10 480	11 004	11 554
Councillors - Medical Aid	129 448	52 582	- 76 866	135 920	142 716
Councillors - UIF	19 484	25 505	6 021	20 458	21 481
	93 994 454	91 797 678	- 2 196 776	98 694 177	103 628 886

- The budget for salaries has decreased with 2.34% (R 2 196 776) from the original budgeted amount.
- Main reason for the movements in employee costs can be attributed to the following:
 - o A decrease in the budget for salaries and other allowances can be seen from inspecting the table above. This decrease relates mainly to the decrease in overtime, shift allowance and stand-by allowance.
 - o We decreased overtime by 36% as we articulated in the budget funding plan
- Provision is made for all employees as at 31 January 2023.
- The budget for remuneration of councilors has decreased by 2.5% (R 139 140).

- The ratio of employee related costs to operating income stands at 38.31%. 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 amounts relating to Operating Grants and Electricity sales are excluded the percentage increases to 80.71%.

Other Materials:

The increase in Other Materials was made based on the fact that since the municipality doesn't have enough fleet (Yellow fleet & Bakkies), the municipality hires fleet from third parties for service delivery. There is also a significant increase for procurement of water chemicals.

Contracted Services:

The increase in Contracted Services was made by increase in repairs and maintenance of machinery and equipment in water services department. In the first half of the financial year we had a big crisis in water services department and a lot of maintenance had to be done there.

General Expenditure:

The increase in General Expenditure is due to increase car hire, telephone, fuel and legal costs that were incurred in the first half of the financial year.

Operational & Capital Grants with Capital Expenditures

The adjusted grants budget is as follows:

Description	Current year			2022/23 Medium Term Revenue & Expenditure Framework	
	Original Budget	1st Adjustment budget	Movement	Budget year +1 2023/24	Budget year +2 2024/25
Revenue:					
<i>Operational Grants</i>					
NT Grant - Equitable Share	86 952 000	86 952 000	-	93 048 000	99 665 000
NT Grant - FMG	3 000 000	3 000 000	-	3 000 000	3 000 000
NT Grant - EPWP	1 073 000	1 073 000	-	-	-
	91 025 000	91 025 000	-	96 048 000	102 665 000
<i>Capital Grants</i>					
NT Grant - MIG	19 991 000	19 991 000	-	20 710 000	21 474 000
NT Grant - WSIG	22 088 000	22 088 000	-	22 900 000	23 930 000
NT Grant - RBIG	4 407 000	4 407 000	-	-	-
NT Grant - INEP	-	-	-	5 500 000	5 747 000
CoGTA Provincial Grant	-	-	-	-	-
	46 486 000	46 486 000	-	49 110 000	51 151 000
Expenditure:					
<i>Capital Grants</i>					
NT Grant - MIG	19 991 000	19 991 000	-	20 710 000	21 474 000
NT Grant - WSIG	22 088 000	22 088 000	-	22 900 000	23 930 000
NT Grant - RBIG	4 407 000	4 407 000	-	-	-
NT Grant - INEP	-	-	-	5 500 000	5 747 000
CoGTA Provincial Grant	-	-	-	-	-
	46 486 000	46 486 000	-	49 110 000	51 151 000
<i>Capital expenditure (Own funds)</i>					
Desktops and Laptops	250 000	250 000	-	262 500	275 625
Furniture and Office Equipment	100 000	50 000	- 50 000	105 000	110 250
CCA - IT Equipment	400 000	-	- 400 000	420 000	441 000
Machinery and Equipment	240 000	800 000	560 000	252 000	264 600
	990 000	1 100 000	110 000	1 039 500	1 091 475

- No changes were made to the Municipality's allocated conditional grants as per the breakdown above.
- Capital expenditure funded by internally generated funds has increased by 11% (R 110 000)
- This increase was based on the fact that the municipality had to purchase new machinery and equipment for water services as there was a major breakdown of such machinery during the first half of the financial year.

OTHER MATTERS CONSIDERED

The municipality has considered the advice and recommendations from the Free State Provincial Treasury that:

- The main budget adjustment be adopted by the 28 February 2023
- The budget should be funded, in the case of an unfunded budget, an amended budget funding plan must be tabled with the budget

- The inputs/feedback provided by PT on Mid-year Budget Assessment and Performance assessment as well as the feedback from the ORGB assessment and monthly Section 71 feedback
- The adjustment budget data strings to be submitted immediately after the budget is tabled in Council

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 2022/23 as well as the two projected outer years 2023/24 and 2024/25.

COMPILED BY:



Z N Mgawuli
EXCO Chairperson

