



MASILONYANA LOCAL MUNICIPALITY 2016/17 SCHEDULE B

Department : Finance

Heading : Final Adjustment budget 2016/2017

Date : February 2017

Purpose

The purpose of this report is to present and to seek to Council approval on the municipality's adjustment budget of 2016/2017

Background

This report was prepared in line with part 2 of the MBRR, and section 28 and 72 of the MFMA. The municipality performed the mid-year assessment in terms of section 72 of the Municipal Finance Management Act and a report was tabled before council for approval of an adjustment budget on the 28 February 2017.

An adjustment budget was as result of mid-year performance Assessment on the municipality budget performed.

In terms of section 28 of the Municipal Finance Management Act,

- (1) A municipality may revise an approved annual budget through an adjustment budget.
- (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 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 another vote
 - (e) May authorise the spending of funds that were unspent at the end of the past year financial year where the under spending could not reasonably have been foreseen at the time to include projected roll overs when the annual budget was for the current year was approved by council
 - (f) May correct any errors in the annual budget and
 - (g) May provide for any other expenditure within a prescribed framework
- (3) An adjustment budget must be in a prescribed form
- (4) Only the Mayor may table the adjustment budget in the municipal council, but an adjustment budget in terms of subsection (2)(b) to (g) ,may ONLY be tabled within a prescribed limitations as to timing or frequency
- (5) When an adjustment budget is tabled, it must be accompanied by-
 - (a) An explanation how the adjustments budget affects the annual budget
 - (b) A motivation of any material changes to the annual;
 - (c) An explanation of the impact of any increased spending on the annual budget and the annual budget for next two financial years; and



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- (d) Any other supporting documentation that may be prescribed
- (6) Municipal tax tariffs may not be increased during a financial year EXCEPT when required in terms of a financial recovery plan.
- (7) Section 22(b), and 23(3) and 24(3) apply in respect of an adjustment budget and in such application a reference in those sections to an annual budget must be read as reference to an adjustment budget

FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2016

Department	Budget 2015/16	Expenditure to date	% spend to date	Final Adjustment Budget
Corporate	16 976 693	10 738 711	63%	18 965 000
Community	26 288 262	12 647 493	48%	37 856 000
Finance	19 143 000	14 175 540	74%	43 219 000
Technical	125 151 000	49 128 706	39%	136 124 000
Municipal Manager	8 948 000	5 129 307	57%	12 749 000

EXPENDITURE ANALYSIS PER DEPARTMENT

Corporate Services

The department has exceeded its budget by 13%, which has significantly increased when compared to the 2015/16. There's R6.5 million Included in the budget for legal cost are Contingencies from previous years and current litigations. There was R2 million budget for IT equipment and R 1 mil for telephones. Due to poor network connection the Municipality needs to budget to enable the municipality to improve financial system synchronisation between all units of the municipality. The budget on IT section makes provision for disaster server blade.

Community and Social

The department spending was at 48% as at 31/12/2016, which reflects that the department is achieving service delivery activities budgeted for, but due to low collection rate and financial challenges not all targets were met in the first half of the 2016/17 financial year.



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Finance department

Due to mSCOA project going on, the Municipality needs to adjust contracted services with R3 million to ensure that the project is implemented smoothly and contractual obligations are met.

Finance charges has to be adjusted from R1.6 mil to R5.2 mil due to interest on ESKOM account and other creditors that are in arrears.

Considering the demand of computer equipment in all units of the Municipality, there's an adjustment of R 898 000 accommodate the need.

Infrastructure Services

The budget on this department will focus mainly on repairs and maintenance of roads and storm water and needs to be adjusted for with R10 mil of own funding to improve the state of local roads.

The other critical issue was water and waste treatment plants which the municipality had to repair from own funding due to their life span. Revenue collection still remains a challenge due to the old electricity conventional meters that are easily tampered with resulting in the Municipality being unable to meet their obligation with ESKOM. The installation of electricity pre-paid meters is the only solution to increase revenue therefore sustainable quality services can be delivered.

Municipal Manager

In terms of performance of the budget in this department, there is no need to increase on operational budget,

Capital Expenditure budget

Section 18 of the MFMA states that:

- (1) An annual budget may only be funded from-
 - (a) Realistically anticipated revenues to be collected
 - (b) Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
 - (c) Borrowed funds but only for the capital budget



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Capital Expenditure - Standard													
Governance and administration		1,125	-	-	-	-	-	899	899	2,024	1,195	1,253	
Executive and council		1,125						899	899	2,024	1,195	1,253	
Budget and treasury office													
Corporate services													
Community and public safety		4,026	-	-	-	-	-	(1,845)	(1,845)	2,182	5,703	2,157	
Community and social services		1,726						(1,082)	(1,082)	644	3,703	157	
Sport and recreation		2,300						(763)	(763)	1,538	2,000	2,000	
Public safety													
Housing													
Health													
Economic and environmental services		15,646	-	-	-	-	-	1,761	1,761	17,407	16,843	18,868	
Planning and development								326	326	326			
Road transport		15,646						1,435	1,435	17,081	16,843	18,868	
Environmental protection													
Trading services		1,703	-	-	-	-	-	(591)	(591)	1,112	157	2,790	
Electricity													
Water		394						534	534	928		2,790	
Waste water management													
Waste management		1,309						(1,125)	(1,125)	184	157		
Other													
Total Capital Expenditure - Standard	3	22,500	-	-	-	-	-	225	225	22,725	23,898	25,069	
Funded by:													
National Government		22,500						(11,746)	(11,746)	10,754	23,898	25,069	
Provincial Government													
District Municipality													
Other transfers and grants													
Total Capital transfers recognised	4	22,500	-	-	-	-	-	(11,746)	(11,746)	10,754	23,898	25,069	
Public contributions & donations													
Borrowing													
Internally generated funds								11,970	11,970	11,970			
Total Capital Funding		22,500	-	-	-	-	-	224	224	22,724	23,898	25,069	

CAPITAL EXPENDITURE BY VOTE/DEPARTMENT

The original budget of MIG was R22.5 million, there was a further unspent amount of R9.8 million from the previous year that had to be surrendered to National Treasury. There was also an under-spending on the MIG and COGTA has reduced the grant from R22.5 mil to R10.7 mil.

The following projects were also affected by the adjustment budget but could not fit on the SB19 schedule on B-Schedules due to space allocated:

Project number	Project Description	Original Budget	Adjustment Budget
MIG/FS/0752/CF/09/09	Winburg Construction of sport centre	0.00	638,934.16
MIG/FS/0855/W/11/11	Theunissen/Masiilo: Installation of 3720 domestic, 2 zonal and 4 bulk water meters	0.00	200,000.00
MIG/FS/0856/W/11/11	Verkeerdevlei/Tshepong: Installation of 505 domestic, 2 zonal and 5 bulk water meters	0.00	200,000.00
MIG/FS/0857/W 11/11	Brandfort/Majwemasweu: Installation of 2719	0.00	200,000.00



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	domestic, 3 zonal and 3 bulk water meters		
MIG/FS/0859/W/11/11	Winburg/Makeleketla: Installation of 3122 domestic and 3 zonal water meters	0.00	200,000.00
MIG/FS/1004/C/14/15	Theunissen/Masilo: Fencing of Phahameng cemetery and building of ablution facilities	0.00	69,342.49
MIG/FS/1006/F/14/15	Theunissen/Masilo: Fencing of reservoirs	0.00	
MIG/FS1122/R,ST/16/17	Masilo/Theunissen: Upgrading of 1km soil road to block paving – phase 2 (MIS:241645)	8 415 176.75	4,738,395.12

There is also an increase on Own funding capital that was initially not budgeted for, due to upgrading of roads on all municipal roads. The adjustment Capital budget amounts to R22.7 Million.

The following capital expenditure were given priority to be funded with municipal own funds:

- Upgrading of gravel roads
- Office equipment
- Repairs of community halls
- Spatial development
- Water pumps

Section 72 of the MFMA states the following:

1. The accounting officer of the municipality MUST by 25 January of each financial year-
 - (a) must 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 and performance during the first half of financial year, and the service delivery and budget implementation plan
 - (iii) the past year's annual report, and progress on re solving 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;



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- (ii) the National Treasury; and
- (iii) the relevant provincial treasury
- 2. The statement referred to in section 71 (1) for the six month of the financial year may be incorporated into the report referred to in subsection (1)(b) of this section
- 3. The accounting officer MUST ,as part of the review-
 - (a) Make recommendations as to whether an adjustment budget is necessary; and
 - (b) Recommend revised projections for revenue and expenditure the extent that it maybe necessary that the adjustment to SDBIP was all departments mainly on Trading Services department and Roads department. The movement will be shown on a separate sheet presenting all the affected departments. MFMA sec

The adjustment links to the SDBIP, where the department has decreased or increased it budget the performance is also adjusted, this will be reflected on the adjustment budget B-Schedule (sheet SB3)

Budget Adjustments Assumptions

- MFMA circular 78 and 79
- Bargaining Council
- AFS 2014/15
- CPI
- NERSA 2015/16 Guideline
- In year reports (section 71 reports 2016/2017)

FINANCIAL PERFORMANCE BY TYPE (EXPENDITURE)

DESCRIPTION	ANNUAL BUDGET 2016/17	ACTUAL AS 31 DECEMBER 2016	VARIANCE	ADJUSTMENT BUDGET
Depreciation	32 287 000	0	32 287 000	32 287 000
Debt impairment	32 380 000	0	32 380 000	45 000 000
Total non-cash items	64 667 000	0	64 667 000	77 287 000
Employee related cost	70 623 000	43 190 000	27 433 000	83 134 253
Councilor remuneration	5 092 000	2 372 000	2 720 000	6 628 000
Finance charges	1 636 000	771 000	865 000	5 013 360
Bulk purchases	43 113 000	7 175 000	35 938 000	43 113 000
Other material (RM)	10 394 000	2 597 000	7 797 000	10 394 208
Contracted services	2 000 000	635 000	1 365 000	5 058 000
Other expenditure	30 578 000	3 201 000	27 377 000	30 578 000
Total operating expenditure	228 103 000	59 941 000	168 162 000	261 205 613

Expenditure

Depreciation



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The municipality have budgeted realistically when the Original budget was tabled, thus there's no need for adjustments. In terms of the Accounting guideline GRAP on PPE issued by Treasury depreciation must be included in the budget even though it's a non-cash item.

Debt Impairment

The municipality budgeted realistically for bad debts impairment. The reason for debt impairment to be budgeted for, is to ensure that the Municipality is prepared that not all billed monies will be collected, as the collection rate is currently at 35%. The municipality originally budgeted R129 Million on services charges which only +- 40% of it will be collected. The adjustment budget is thereof increased from R32 mil to R 45 mil.

If non-cash item are excluded in the budget, they will result to unauthorised expenditure as previously reported by the Auditor General.

Employee related cost

Salaries has been increased by R15.5 mil from R70 mil to R86 mil mainly as a result of acting allowance paid on vacant positions in the Municipality.

Councillor's Remunerations

Councillor's remunerations is increased by R1.5 mil to ensure that increases of Councillor's are incorporated

Finance Charges

Originally the budgeted amount of Finance charges was R 1 636 000 mainly for interest on Long-term loans with DBSA and ESKOM. However, due to interest charged on Bulk water and electricity accounts, there was a need to adjust the budget to R 5 284 000

Bulk purchases

The Bulk purchases were realistically budgeted according to payment arrangement made therefore there is no need to adjust the budget. However, the Municipality does not honour the arrangement due to low collection rate and financial difficulties.

Repairs and Maintenance

There's no adjustment on the R & M budget as the spending is very slow due financial difficulties. The priority on repairs and maintenance of the following expenses:

- Yellow Fleet
- Tractors
- Gravel and Tarred roads
- Motor vehicles
- Buildings and offices

The main focus is to ensure that the plant and equipment used is in a good condition and can deliver services efficiently effectively.



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Contracted Services

The current expenditure as at 31/12/2017 is at 32%, but the budget will be adjusted to accommodate the contractual obligation of the mSCOA implementation.

Other expenditure

There will not be an increase on other expenditure. The main thing that resulted to the expenditure being increased is own funding capital that was adjusted to accommodate Road maintenance, spatial development, renovation of halls and repair of water reservoirs

Matters to be noted by Council

- **Use of municipal vehicle**

Fuel continues to be one of the highest expenditure due to misuse of vehicle, however there was no adjustment made to the R1.2 mil budgeted

- **Subsistence and travel**

Management continues to put strict measures to ensure that the S&T is not abused.

The budgeted amount for this expenditure was R1.5 mil and will not be adjusted.

- **Legal fees**

Council must take note that due to cases that have previously been reported, this becomes an expenditure that needs to be settled in line with court's ruling. This on its own has a negative impact on the cash-flow of the municipality.

- **General expenditure**

Management continues to put in place controls to ensure that cost containment measures are enforced, and that the spending is within the cash-flow projection of the municipality.

FINANCIAL PERFORMANCE BY TYPE (REVENUE)

DESCRIPTION	ANNUAL BUDGET 2016/17	ACTUAL AS 31 DECEMBER 2016	VARIANCE	FINAL ADJUSTMENT BUDGET
Property Rates	30 313 000	20 983 000	9 330 000	30 313 000
Services charges: Electricity	30 825 000	13 422 000	17 403 000	27 825 000



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Services charges: Water	34 758 000	20 791 000	13 967 000	34 758 000
Services charges: Sewerage	20 769 000	12 673 000	8 096 000	20 769 000
Services charges: Refuse	12 785 000	6 782 000	6 003 000	12 785 000
Services charges: Other		122 000	(122 000)	
Rental of facilities	280 000	19 000	261 000	140000
Interest earned: Investment	530 000	33 000	497 000	530 000
Interest earned: Outstanding debtors	4 563 000	1 386 000	3 177 000	4 563 000
Dividends	5 000	0		5 000
Fines	1 111	148 000	(146 889)	1 111
Operational grants	92 334 000	59 253 000	33 081 000	104 910 000
Other revenue	66 000	31 704 000	(31 638 000)	650 000
Gains on disposed assets				
Total revenue	227 230 000	167 586 000	59 644 000	237 243 000

Income

The municipality budgeted R 227 mil in the annual budget and the Municipality had budgeted adequately, however when the Municipality struggled to pay ESKOM, and COGTA gave a relief grant amounting to R 12.5 million for the payment of ESKOM, and that amount has been adjusted on the operating grants. The Statement of Performance as 31 December 2016 was R 167 million. Revenue budget is increased by R 9 million due to the following:

- The COGTA grant that was for ESKOM payment
- Reduction of R3 mil on electricity service charge
- Reduction of R140 000 on Rental of facilities

Sources of Funding

Municipality has very limited sources of funding. We have funds from MIG R22 500 000, EEDMG of R6 000 000, that more than half has been spent has already been spent. MFMG to a total of R1 825 000 mainly for the support towards the implementation of the MFMA and Capacity building to Budget and Treasury Office of which 44% has been spent Equitable share of R 83 362 million which mostly is to subsidise the indigents and operations on non-revenue generating departments and councillors remuneration.

Although revenue continues to decline, the municipality have put in place measures that will ensure that the municipality is sustainable. The revenue enhancement strategy has been reviewed and



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implementation plan with clear responsibilities and time frame will be monitored to ensure that the strategies yield positive results for the municipality.

The appointment of the debt collector will also assist the municipality to see an improvement in collection of revenue, especially from customers that has provided the municipality with false information. The increase in revenue can be seen in the last quarter of the year.

OVERALL ANALYSIS OF BUDGET ADJUSTMENT 2015/2016

DESCRIPTION	ORIGINAL BUDGET 2016/17	ACTUAL AS 31 DECEMBER 2016	VARIANCE	ADJUSTMENT BUDGET
Total revenue	227 230 000	167 586 000	59 644 000	237 243 000
Total expenditure	228 103 000	59 941 000	168 162 000	261 205 613
Surplus/(Deficit) for the year	(874 000)	107 645 000		(23 958 000)

Although the municipality adjustment budget shows a deficit of R23 million, it is due to non-cash items being depreciation and Debt impairment and this has a direct impact on the municipal budget,

By this adjustment, most critical areas have been taken into consideration and council approve the report as it gave first priority items that will ensure sustainability and uninterrupted delivery of municipal service.

RECOMMENDATION:

1. Council to approve the final adjustment budget 2016/2017 for the above mentioned reasons.