



MASILONYANA LOCAL MUNICIPALITY 2017/18 SCHEDULE B

Department : Finance

Heading : Final Adjustment budget 2017/2018

Date : February 2018

Purpose

The purpose of this report is to present and to seek to Council approval on the municipality's adjustment budget of 2017/2018

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.

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 2017

<u>Expenditure - Functional</u>													
Governance and administration		67,463	-	-	-	-	-	(7,040)	(7,040)	60,423	67,835	69,760	
Executive and council		19,311	-	-	-	-	-	-	-	19,311	20,412	21,555	
Finance and administration		47,154	-	-	-	-	-	(7,040)	(7,040)	40,114	46,369	47,092	
Internal audit		997	-	-	-	-	-	-	-	997	1,054	1,113	
Community and public safety		34,503	-	-	-	-	-	-	-	34,503	36,469	38,512	
Community and social services		29,935	-	-	-	-	-	-	-	29,935	31,641	33,413	
Sport and recreation		2,901	-	-	-	-	-	-	-	2,901	3,067	3,238	
Public safety		-	-	-	-	-	-	-	-	-	-	-	
Housing		1,667	-	-	-	-	-	-	-	1,667	1,762	1,861	
Health		-	-	-	-	-	-	-	-	-	-	-	
Economic and environmental services		36,756	-	-	-	-	-	-	-	36,756	38,851	41,027	
Planning and development		7,939	-	-	-	-	-	-	-	7,939	8,391	8,861	
Road transport		28,817	-	-	-	-	-	-	-	28,817	30,460	32,166	
Environmental protection		-	-	-	-	-	-	-	-	-	-	-	
Trading services		107,548	-	-	-	-	-	(17,840)	(17,840)	89,708	120,073	134,450	
Energy sources		47,186	-	-	-	-	-	(15,000)	(15,000)	32,186	56,271	67,076	
Water management		29,874	-	-	-	-	-	(2,840)	(2,840)	27,034	31,576	33,345	
Waste water management		20,094	-	-	-	-	-	-	-	20,094	21,240	22,429	
Waste management		10,394	-	-	-	-	-	-	-	10,394	10,986	11,600	
Other		-	-	-	-	-	-	-	-	-	-	-	
Total Expenditure - Functional	3	246,269	-	-	-	-	-	(24,880)	(24,880)	221,389	263,229	283,749	

EXPENDITURE ANALYSIS PER DEPARTMENT

Finance and Admin (Finance, Corporate Services and Municipal Manager)

Due to financial constraints of the Municipality, the departments are not spending fully on their budget and as a result had to adjust down by R7 million, mainly on furniture and equipment, government garage and training.

Community and Social

There will be no adjustments made as this departments are service delivery departments and it should not be compromised.

Infrastructure Services

Due to low spending on infrastructure projects the Municipality had to surrender monies that were allocated to MIG and RBIG (R7.8 million and R5 million respectively).



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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

CAPITAL EXPENDITURE BY VOTE/DEPARTMENT

The original budget total capital budget was R51.2 million, and the total constituted of MIG allocation of R23 million, RBIG allocation of R15 million and INEP allocation of R5 million and the R 7.4 million was budgeted from internally generated funds. Of the total capital budget R51.2 million, R16.7 million had to be adjusted down due to low spending rate and as a result MIG and RBIG have withdrawn the remainder of the grants allocated to the Municipality (R7.8 mil and R 5 mil respectively), and internally generated funds also had to be reduced by R3.8 due to low spending and financial constraints. There was a further unspent amount of R4.7 million from the previous year that had to be surrendered to National Treasury.



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Capital Expenditure - Functional										
Governance and administration		1,000	-	-	-	-	-	588	588	1,588
Executive and council								1,188	1,188	1,188
Finance and administration		1,000						(600)	(600)	400
Internal audit										-
Community and public safety		8,402	-	-	-	-	-	(7,907)	(7,907)	495
Community and social services		6,627						(6,222)	(6,222)	405
Sport and recreation		1,685						(1,685)	(1,685)	0
Public safety		90								90
Housing										-
Health										-
Economic and environmental services		14,861	-	-	-	-	-	(4,770)	(4,770)	10,091
Planning and development		1,000								1,000
Road transport		13,861						(4,770)	(4,770)	9,091
Environmental protection										-
Trading services		27,000	-	-	-	-	-	(4,616)	(4,616)	22,384
Energy sources		10,000						(3,250)	(3,250)	6,750
Water management		15,000						(1,366)	(1,366)	13,634
Waste water management										-
Waste management		2,000								2,000
Other										-
Total Capital Expenditure - Functional	3	51,263	-	-	-	-	-	(16,705)	(16,705)	34,558
Funded by:										
National Government		43,768						(12,855)	(12,855)	30,913
Provincial Government										-
District Municipality										-
Other transfers and grants										-
Transfers recognised - capital	4	43,768	-	-	-	-	-	(12,855)	(12,855)	30,913
Public contributions & donations										-
Borrowing										-
Internally generated funds		7,495						(3,850)	(3,850)	3,645
Total Capital Funding		51,263	-	-	-	-	-	(16,705)	(16,705)	34,558

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;
 - (ii) the National Treasury; and
 - (iii) the relevant provincial treasury



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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)

FINANCIAL PERFORMANCE BY TYPE (EXPENDITURE)

DESCRIPTION	ANNUAL BUDGET 2017/18	ACTUAL AS 31 DECEMBER 2017	VARIANCE	ADJUSTMENT BUDGET 2017/2018
Adjustment	26 534 000	0	26 534 000	26 534 000
Debt impairment	35 000 000	0	35 000 000	35 000 000
Total non-cash items	61 534 000	0	61 534 000	61 534 000
Employee related cost	89 286 000	42 920 000	46 366 000	89 286 000
Councilor remuneration	6 893 000	2 130 000	4 763 000	6 893 000
Finance charges	4 335 000	7 255	4 327 745	1 335 000
Bulk purchases	42 292 000	11 003 000	31 289 000	24 453 000
Other material (RM)	11 059 000	3 503 000	7 556 000	11 059 000
Contracted services	3 675 000	2 004 000	1 671 000	3 175 000
Other expenditure	27 196 000	14 403 000	12 793 000	23 656 000
Total operating expenditure	246 269 000	75 970 255	123 933 745	221 390 000

Expenditure

Depreciation

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 21%. The municipality originally budgeted R149 Million



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on services charges anticipated that +/- 75% of it will be collected, but have since adjusted the collection rate to 50%. The original budget will thereof remain the same.

If non-cash items are excluded in the budget, they will result to unauthorised expenditure.

Employee related cost

Salaries remains unchanged as the original budget of R89 million have spent 48%, which reasonable enough not to adjust.

Councillor's Remunerations

Councillor's remunerations also remain the unchanged.

Finance Charges

The original budgeted amount of Finance charges was R 1 636 000 mainly for interest on Long-term loans with DBSA and ESKOM. However, due to financial constraints the budget had to be adjusted down.

Bulk purchases

The Bulk purchases were realistically budgeted according to payment arrangement made between the Municipality and relevant , however due to the Municipality not being able to honour the arrangement due to low collection rate and financial difficulties the budget had to be adjusted down to R24 million.

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:

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

Contracted Services

The original budget was R3.6 million that was to address mSCOA implementation, Government Garage for leasing of vehicles and other leases. This budget had to be budgeted down as a resulting of being unable to honour the arrangement with Government Garage.

Other expenditure

The budget has been reduced by R3.5 million to R23.6 due to financial constraints



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FINANCIAL PERFORMANCE BY TYPE (REVENUE)

DESCRIPTION	ANNUAL BUDGET 2017/18	ACTUAL AS 31 DECEMBER 2017	VARIANCE	FINAL ADJUSTMENT BUDGET
Property Rates	42 213 000	32 800 000	9 330 000	42 213 000
Services charges: Electricity	32 888 000	16 502 000	17 403 000	32 888 000
Services charges: Water	38 145 000	26 079 000	13 967 000	38 145 000
Services charges: Sewerage	22 098 000	13 352 000	8 096 000	22 098 000
Services charges: Refuse	14 288 000	7 233 000	6 003 000	14 288 000
Services charges: Other		122 000	(122 000)	

Income

The municipality had originally budgeted R 257 million in the annual budget and the Municipality had budgeted adequately, and only adjusted down the other revenue by R1.2 million. The billing is in line with the original budget and ideally would be adjusted up, however with the collection rate of the Municipality that is very low we cannot adjust up

Sources of Funding

Municipality has limited sources of funding. The Municipality received grants from MIG R23.7 million which R7.8 million had to be surrendered due to low spending, EEDMG of R5 million, RBIG of R15 million which R5 million will also be surrendered due to low spending on projects.

The Municipality is allocated a total of R1.9 million for MFMG which is also under performing due to the fact that the Municipality did not appoint interns, as this is mainly for the support towards the implementation of the MFMA and Capacity building to Budget and Treasury Office. Lastly, Equitable share of R 89 million is also allocated to the Municipality which mostly is to subsidise the indigents and operations on non-revenue generating departments and councillors remuneration, however of the total Equitable Share there's R7.8 million that was deducted due to non-spending in the prior year.

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



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OVERALL ANALYSIS OF BUDGET ADJUSTMENT 2017/2018

DESCRIPTION	ORIGINAL BUDGET 2017/18	ADJUSTMENT BUDGET
Total revenue	257 824 000	256 584 000
Total expenditure	246 269 000	221 390 000
Surplus/(Deficit) for the year	11 555 000	35 194 000

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.

As required by Circular 89 of MFMA, the adjustment budget to be approved by Council is supposed to agree with the data strings as required by MSCOA but currently there's a system challenge that is being worked on to ensure that the Municipality will comply.

RECOMMENDATION:

1. Council to approve the final adjustment budget for 2017/2018.