

OFFICE OF THE CHIEF FINANCIAL OFFICER

28 February 2017

For submission to Council

SUBMISSION OF THE ADJUSTMENT BUDGET FOR THE MTREF PERIOD

2016/17 TO 2018/19

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

- | | |
|--|----------------|
| • Table B1 - Summary | See Annexure A |
| • Table B2 – Financial performance standard classification | See Annexure B |
| • Table B3 – Financial performance – by municipal vote | See Annexure C |

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 reasonably 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 Circular for the 2016/17 MTREF

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2016/17 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 2016/17		
	Original budget	Adjustment budget	Movement
Financial Performance			
<i>Revenue from non-exchange transactions</i>			
Property rates	7 866 126	7 709 691	-43 566
Fines	4 500 000	4 500 000	-
Government grants and subsidies received	150 931 000	150 931 000	-
<i>Revenue from exchange transactions</i>			
Service charges	65 193 858	65 193 858	-
Rental of facilities and equipment	851 980	842 520	9 461
Interest earned - external investments	93 500	450 000	-356 500
Interest earned - outstanding debtors	6 102 988	6 102 988	-
Dividends received	10 942	10 942	-
Other income	16 128 689	16 130 411	-
Total Revenue	251 539 081	261 931 409	-390 605
<i>Expenditure</i>			
Employee related cost	60 030 733	61 263 543	-1 232 810
Remuneration of councillors	3 850 261	3 825 755	24 506
Depreciation and amortisation	29 848 543	29 848 543	-
Repairs and maintenance	5 531 365	5 510 165	21 200
Finance costs	1 824 000	1 833 740	-9 740
Bulk purchases	22 208 256	22 208 256	-
General expenses	137 632 748	141 397 079	-3 764 331
Capital expenditures	1 410 900	1 448 500	-37 600
Free basic services	7 834 717	7 834 717	-
Total expenditure	270 171 523	275 170 298	-4 998 775
Surplus / (Deficit)	-18 632 442	-23 238 889	4 606 170
<i>Less: Non-cash items</i>	31 198 543	31 198 543	-
Depreciation	29 848 543	29 848 543	-
Provisions	1 350 000	1 350 000	-
Surplus/ (Deficit) for the year	12 566 102	7 959 654	4 606 170

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:

	Current year 2016/17			2016/17 Medium Term Revenue & Expenditure Framework	
	Original budget	Adjusted budget	Full year forecast	Budget year +1 2017/18	Budget year +2 2018/19
Salaries	37 972 072	37 825 425	37 825 425	40 473 205	43 306 329
Performance Bonus	483 243	600 125	600 125	642 133	687 083
Annual Bonus	3 139 669	3 153 058	3 153 058	3 373 772	3 609 936
Allowance - Telephone	36 874	243 049	243 049	243 049	243 049
Allowance - Standby	493 200	462 708	462 708	495 098	529 755
Housing subsidy	734 469	707 937	707 937	707 937	757 492
Overtime	2 406 371	3 649 766	3 649 766	3 905 250	4 178 618
Allowance - Other	265 099	143 113	143 113	153 130	163 850
Temporary workers	795 448	1 122 155	1 122 155	1 200 706	1 284 755
Allowance - Vehicle	2 400 089	2 562 769	2 562 769	2 562 769	2 562 769
Industrial Council Levy	32 046	24 207	24 207	25 902	27 715
Skills Development Levy	496 293	486 261	486 261	520 299	556 720
Ward Allowances	353 100	-	-	-	-
Medical Aid Fund	3 126 145	3 264 805	3 264 805	3 591 286	3 842 676
Pension Fund	6 912 258	6 627 201	6 627 201	7 091 105	7 587 482
UIF	384 358	390 964	390 964	418 331	447 615
Councillors - Allowance	2 536 490	2 687 161	2 687 161	2 875 262	3 076 531
Councillors - Telephone Allowance	268 035	226 445	226 445	242 296	259 256
Councillors - Travel Allowance	477 805	477 805	477 805	477 805	511 251
Councillors - SDL	32 507	33 614	33 614	35 967	38 485
Councillors - Medical Aid	167 524	167 524	167 524	184 277	197 176
Councillors - Pension Fund	208 020	208 020	208 020	222 581	238 162
Councillors - Housing Allowance	159 880	25 186	25 186	25 186	25 186
	63 880 994	65 089 297	65 089 297	69 467 346	74 131 890

- The budget for salaries has increased with 1.89% (R1 208 304) from the original budgeted amount.
- We believe that this insignificant 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:
 - o An increase in the budget for overtime can be seen from inspecting the table above. With several matters relating to service delivery, (especially water problems due to the ongoing drought) workers in the Technical Department had to work overtime to ensure that the Municipality adheres to its vision of quality service delivery.
- Provision is made for all employees as at 31 January 2017.
- The ratio of employee related costs to operating income stands at 63.55% (2015/16: 66.37%). 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 81.60% (2015/16: 85.65%).

Repairs and Maintenance

The adjusted repairs & maintenance budget is as follows:

	Current year 2016/17			2016/17 Medium Term Revenue & Expenditure		
	Original budget	Adjusted budget	Full year forecast	Budget year 2016/17	Budget year +1 2017/18	Budget year +2 2018/19
R/M - Furniture & Equipment;	-	500,00	500,00	525	551	579
R/M - Buildings; Council Prop	614 000,00	350 000,00	350 000,00	367 500	385 875	405 169
R/M - Vehicles & Equipment; C	320 000,00	320 000,00	320 000,00	336 000	352 800	370 440
R/M - Dumping Site; Council P	-	12 000,00	12 000,00	12 600	13 230	13 892
R/M - Buildings; Administrati	24 000,00	24 000,00	24 000,00	25 200	26 460	27 783
R/M - Vehicles & Equipment; A	-	5 000,00	5 000,00	5 250	5 513	5 788
R/M - Furniture & Equipment;	34 946,17	34 946,17	34 946,17	36 693	38 528	40 455
R/M - Traffic & Road Signs;	120 000,00	120 000,00	120 000,00	126 000	132 300	138 915
R/M - Tools & Equipment;	-	300,00	300,00	315	331	347
R/M - Tools & Equipment; Zast	490 000,00	490 000,00	490 000,00	514 500	540 225	567 236
R/M - Tools & Equipment; Smit	410 000,00	410 000,00	410 000,00	430 500	452 025	474 626
R/M - Tools & Equipment; Roux	360 000,00	360 000,00	360 000,00	376 000	396 900	416 745
R/M - Plant & Equipment; Zast	200 000,00	200 000,00	200 000,00	210 000	220 500	231 525
R/M - Plant & Equipment; Roux	144 000,00	144 000,00	144 000,00	151 200	158 760	166 698
R/M - Dumping Site;	1 300,01	1 300,01	1 300,01	1 365	1 433	1 505
R/M - Roads & Streets;	-	100 000,00	100 000,00	105 000	110 250	115 763
R/M - Stormwater;	476 000,00	476 000,00	476 000,00	499 800	524 780	551 030
R/M - Vehicles & Equipment; Z	-	100 000,00	100 000,00	105 000	110 250	115 763
R/M - Water Reticulation;	-	25 000,00	25 000,00	26 250	27 563	28 941
R/M - Plant & Equipment; Zast	384 000,00	384 000,00	384 000,00	403 200	423 360	444 528
R/M - Plant & Equipment; Smit	344 000,00	344 000,00	344 000,00	361 200	379 260	398 223
R/M - Plant & Equipment; Roux	304 000,00	304 000,00	304 000,00	319 200	335 160	351 918
R/M - Street Lights;	67 907,96	67 907,96	67 907,96	71 303	74 869	78 612
R/M - Plant & Equipment;	850 000,00	850 000,00	850 000,00	892 500	937 125	983 981
R/M - Network;	344 630,07	344 630,07	344 630,07	361 862	379 955	398 952
R/M - Meters;	42 581,27	42 581,27	42 581,27	44 710	46 946	49 293
	5 531 365,48	5 510 165,48	5 510 165,48	5 785 673,75	6 074 957,44	6 378 705,31

- Repairs and Maintenance expenditures were reviewed on an individual basis and amendments to the budget were made as stated above. An overall insignificant reduction of R20 000.00 was made.

Operational & Capital Grants with Capital Expenditures

The adjusted grants budget is as follows:

	Current year 2016/17			2016/17 Medium Term Revenue & Expenditure Framework	
	Original budget	Adjusted budget	Full year forecast	Budget year 2017/18	Budget year +1 2018/19
Revenue					
<i>Operational Grants</i>					
NT Grant - Equitable Share	54 472 000	54 472 000	54 472 000	55 801 000	59 560 000
NT Grant - FMG	1825 000	1825 000	1825 000	1 900 000	2 155 000
NT Grant - EPwP	1 000 000	1 000 000	1 000 000	-	-
	57 297 000	57 297 000	57 297 000	57 501 000	61 715 000
<i>Capital Grants</i>					
NT Grant - MIG	28 429 000	28 429 000	28 429 000	18 606 000	19 450 000
NT Grant - RBIG	35 000 000	35 000 000	35 000 000	23 000 000	13 436 000
NT Grant - MWIG	30 265 000	30 265 000	30 265 000	42 500 000	48 500 000
NT Grant - INEP	-	-	-	-	5 000 000
	93 694 000	93 694 000	93 694 000	84 106 000	86 386 000
Expenditure					
<i>Capital Grants</i>					
NT Grant - MIG	28 429 000	28 429 000	28 429 000	18 332 000	19 158 000
NT Grant - RBIG	35 000 000	35 000 000	35 000 000	45 000 000	-
NT Grant - MWIG	30 265 000	30 265 000	30 265 000	5 265 000	8 500 000
NT Grant - INEP	-	-	-	300 000	5 000 000
	93 694 000	93 694 000	93 694 000	68 897 000	32 658 000
<i>Capital expenditure (own funds)</i>					
CCA - IT	370 000	370 000	370 000	388 500	407 925
CCA - Tools and equipment	570 000	570 000	570 000	598 500	628 425
CCA - Vehicles, plant and equipment	422 400	460 000	460 000	483 000	507 150
CCA - Furniture and office equipment	48 500	48 500	48 500	50 925	53 471
	1 410 900	1 448 500	1 448 500	1 520 925	1 596 971

- No changes were made to any of the Municipality's allocated conditional or unconditional grants allocated to Mohokare Local Municipality
- The budget for capital expenditure funded by own funds have been increased by an insignificant amount to budget for items required by the Office of the Mayor.

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 the Budget Steering Committee recommends to council the approval of the adjustment budget of the municipality for the financial year 2016/17 as well as the two projected outer years 2017/18 and 2018/19 as further set out in the following annexures.
 - a. Table B1 - Summary See Annexure A
 - b. Table B2 – Financial performance standard classification See Annexure B
 - c. Table B3 – Financial performance – by municipal vote See Annexure C
2. It is recommended that Council approves the proposed cost saving measures with immediate effect.

COMPILED BY:



NI MEHLOMAKULU
MAYOR