

**ADJUSTMENT BUDGET OF
MOQHAKA LOCAL
MUNICIPALITY**



**2018/19 TO 2020/21
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS**

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Purpose

The purpose of the report is to obtain approval for adjustments to the approved 2018/19 Medium Term Revenue and Expenditure Framework (MTREF) in terms of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

Background

The 2018/19 MTREF was approved by Council on **31 May 2018** in accordance with section 24(1) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and applicable National Treasury guidelines.

In terms of section 72 of the MFMA *‘the accounting officer of a municipality must assess the performance of the municipality during the first half of the financial year’*,

It is further stated in section 72 of the MFMA that *“the accounting officer must as part of the review make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary”*.

The MFMA Section 69 (2) further stipulates that *“when necessary, the accounting officer must prepare an adjustment budget and submit it to the Executive Mayor for consideration and tabling in the municipal council”*.

Section 28 (2) of the MFMA provides guidelines on when and how an adjustments budget can be prepared. The guidelines are the following:

- A municipality may revise an approved annual budget through an adjustments budget.
- An adjustments 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 Executive Mayor of the municipality;
 - (d) may authorise the utilisation of projected savings in one vote towards spending under another vote;
 - (e) may authorise 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;
 - (f) may correct any errors in the annual budget; and
 - (g) may provide for any other expenditure within a prescribed framework.

Adjustment Budget

The following table outlines the consolidated overview of the adjusted 2018/19 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2018/19 MTREF

R thousand	Annual Budget Year 2018/19	Adjustment Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
Total Operating Revenue	807 165	808 109	- ^{NB}	-
Total Operating Expenditure	790 573	787 299	-	-
<i>Surplus/(Deficit) for the year</i>	16 592	20 810	-	-
Total Capital Expenditure	66 283	70 219	-	-

NB

The National Treasury issued MFMA Circular No. 93 Municipal Budget Circular for the 2019/20 MTREF. This circular also introduces mSCOA Version 6.3 which must be used for the preparation of the 2019/20 Budget. As a result, the two outer years (Budget Year 2019/20 & 2020/21) were cleared accordingly on the system to enable the Financial System service provider to prepare and update the municipality's mSCOA structure to timeously update and to enable the municipality to upgrade to mSCOA Version 6.3 without any hassle.

The following table is a summary of the adjusted budget.

Table 2 Summary of revenue classified by main revenue source

Revenue types			
R thousand	Annual Budget 2018/19	Adjustment Budget 2018/19	%
Property rates	70 608	64 340	-9%
Service Charges: Electricity	306 319	313 150	2%
Service Charges: Water	119 113	118 866	0%
Service Charges: Sanitation	41 922	41 738	0%
Service Charges: Refuse	33 925	31 097	-8%
Rental of Facilities	9 003	8 989	0%
Interest : External Investments	1 420	1 420	0%
Interest: Outstanding Debtors	19 764	21 677	10%
Fines	5 976	5 976	0%
Transfers Recognised operational	188 893	189 902	1%
Other Revenue	10 222	10 954	7%
Total Revenue (Excluding capital grants)	807 165	808 109	0%

Remarks

Property Rates

The property rates experienced an **9%** decline during the first half of the financial year. This decrease was mainly as a result of budget corrections and alignment which were effected after the implementation of the mSCOA which was implemented during the 2017-18 financial year. The corrections emanate from the implementation of the new general valuation roll which came into effect on the 01 July 2017. These figures informed the 2017-18 and 2018-19 budget preparations.

Service Charges

Refuse revenue declined by **8%** during the first half of the financial year. This decrease emanated from the increase in the cost of free basic services provided to poor households relating to refuse removal. The refuse revenue was in line with the projected budget and did not require any adjustments.

Other Revenue

The decrease of **7%** sustained with regards to other revenue, mainly was as a result of a number of other revenue items which did not perform as expected and were subsequently adjusted downwards so as to portray the correct picture of outcomes as at mid-year.

Table 3: Summary of operating expenditure by standard classification item

The following table is a high level summary of the adjusted budget and MTREF (classified per main type of operating expenditure):

OPERATING EXPENSES			
Description R thousand	Annual Budget 2018/19	Adjustment Budget 2018/19	%
Employee Related Cost	267 549	258 886	-3%
Remuneration of Councillors	18 192	18 378	1%
Bulk Purchases	251 237	251 260	0%
Contracted Services	105 811	101 979	-4%
Repairs and Maintenance	10 706	10 706	0%
Depreciation	32 881	32 908	0%
Finance charges	3 140	3 140	0%
Contribution to bad debts	10 133	10 133	0%
General Expenses	90 924	99 909	10%
Total Expenditure	790 573	787 299	0%

Remarks

Contracted Services

The contracted services decrease by 4% during the mid-year budget assessment process, this decrease also includes some of the budget adjustments that were effected on the budget line items due to non-spending of expenditure votes.

General Expenses

The general expenses experienced an adjustment of 10% increase as a result of additional funding appropriated for yellow fleet rentals and a budget correction of expenditure relating to the refuse removal division which was not aligned accordingly during the preparation of the 2018/19 annual budget.

TABLE 4: TRANSFERS AND GRANT RECEIPTS

The table below provides a summary of the adjusted grants receipts:

FS201 Moqhaka - Supporting Table SB7 Adjustments Budget - transfers and grants receipts					
<u>Operating Transfers and Grants</u>		Budget Year 2018/19	Adjustment Budget 2018/19	Budget Year +19/20	Budget Year +20/21
National Government:		188 902	188 902	-	-
Local Government Equitable Share		185 144	185 144	-	-
Finance Management		2 215	2 215	-	-
LG Setā		543	543	-	-
EPWP Incentive		1 000	1 000	-	-
Provincial Government:		-	1 000	-	-
Limited Financial and Infrastructure Support to Municipalities		-	1 000	-	-
Other transfers and grants [insert description]		-	-	-	-
District Municipality:		-	-	-	-
[insert description]		-	-		
			-		
Other grant providers:		-	-	-	-
[insert description]		-	-	-	-
			-		
Total Operating Transfers and Grants		188 902	189 902	-	-
<u>Capital Transfers and Grants</u>					
National Government:		49 410	49 410	-	-
Municipal Infrastructure Grant (MIG)		39 410	39 410	-	-
Regional Bulk Infrastructure		-	-	-	-
EPWP		-	-	-	-
Water Services Infrastructure Grant		10 000	10 000	-	-
Other capital transfers [insert description]			-		
Provincial Government:		-	-	-	-
Other capital transfers/grants [insert description]			-		
			-		
District Municipality:		-	-	-	-
[insert description]			-		
Other grant providers:		-	-	-	-
[insert description]			-		
			-		
Total Capital Transfers and Grants		49 410	49 410	-	-
TOTAL RECEIPTS OF TRANSFERS & GRANTS		238 312	239 312	-	-

Comments on Adjustments:

The municipality received a R1m limited financial assistance grant from the provincial CoGTA, which resulted in the same increase in the grant receipts during the 2018/19 financial year.

Table 5: Medium-term capital budget per vote

Adjustment 2018/19 Budget								
CAPITAL BUDGET (Own Funds)								
R thousand	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Community & Social Services	LED	TOTAL
OFFICE FURNITURE & EQUIPMENT	-	-	1 082	678	2 166	1 108	1 284	6 318
Khatliso: Upgrading of Road 0.56km	-	-	-	-	3 000	-	-	3 000
SERVICING OF ERVEN IN TUINHOF	-	-	-	-	1 500	-	-	1 500
Matlwangtlwang Dry Sanitation	-	-	-	-	3 292	-	-	3 292
GELUKWAARTS: 0.39KM TARRED ROAD	-	-	-	-	4 500	-	-	4 500
FIRE ENGINE FIRE FIGHTING	-	-	-	-	-	2 200	-	2 200
GRAND TOTAL	-	-	1 082	678	14 458	3 308	1 284	20 810

Comments on Adjustments:

The additional adjustments in the budget relates to the BP Garage project which was funded through the MIG Grant. Due to the urgency of the other issues on site, the total project costs was forecasted at R15m, of which the MIG only funded R10m and as a result the municipality had to co-fund this project so as to deal with the issue that the community was experiencing relating to accessibility of the roads from one area to another.

The following table provides a breakdown of budgeted capital expenditure by vote:

FS201 Moqhaka - Table B7 Adjustments Budget Cash Flows				
Description	Original Budget 2018/19	Adjusted Budget	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands				
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates	63 547	57 906	-	-
Service charges	441 162	441 877	-	-
Other revenue	38 220	38 220	-	-
Government - operating	188 359	189 359	-	-
Government - capital	49 410	49 410	-	-
Interest	9 882	9 882	-	-
Dividends	-	-	-	-
Payments				
Suppliers and employees	-724 211	-725 211	-	-
Finance charges	-2 669	-2 669	-	-
Transfers and Grants	-	-		
NET CASH FROM/(USED) OPERATING ACTIVITIES	63 700	58 774	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	-	-	-	-
Decrease (Increase) in non-current debtors	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-
Payments				
Capital assets	-49 410	-49 410	-	-
NET CASH FROM/(USED) INVESTING ACTIVITIES	-49 410	-49 410	-	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	-	-	-	-
Borrowing long term/refinancing	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-
Payments				
Repayment of borrowing	-3 200	-3 200	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES	-3 200	-3 200	-	-
NET INCREASE/ (DECREASE) IN CASH HELD	11 091	6 164	-	-
Cash/cash equivalents at the year begin:	579	579	-	-
Cash/cash equivalents at the year end:	11 670	6 743	-	-

The cash flow was projected at a collection rate of 85% on revenues except for the operating and capital grants which has been budgeted for at 100% on the original budget. These projections did not change due to the mid-year performance of the collection rate which was at 82% and did not materially differ from the original projections. The municipality has also made provision to meet 100% of its obligations to the extent where possible however 90% percent for other expenditure has been provisioned.