

MOGALAKWENA MUNICIPALITY

2022-23 ADJUSTMENT BUDGET

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PART 1 – ADJUSTMENTS BUDGET

1.1 Mayor's report

The Mayor will present his report separately in the council meeting of 28 February 2023.

The report will be attached to the minutes of the council meeting.

1.2 Council Resolutions

The adjustments budget resolutions will form part of the adjustments budget documents after submission of the adjustment budget to Council.

The Municipal Manager will submit the approved documentation to The National and Provincial Treasuries as required by the Municipal Finance Management Act.

1.3 Executive summary

The adjustments budget is prepared in terms of Section 28 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and in the format as prescribed by the Section 21 of the Municipal Budget and Reporting Requirements (MBRR).

1.3.1 Effect of adjustments budget on service delivery and related financial implications

Mogalakwena local municipality is faced with cash flow challenges. As a result, the municipality finds it difficult to meet the service delivery needs of the community. The cash flow challenges are relating to the municipality's ever growing debtors' book. It is unfortunate that part of the long outstanding debtors are government departments. In addition to the challenges identified, the municipality also has to take into account the effect of roll-over applications from the 2021/22 financial year. National Treasury has disapproved roll-over applications of the municipality to an amount of R62 million.

The municipality has not increased municipal tax and tariffs through the adjustments budget in line with Section 28(6) of the Municipal Finance Management act 2003 (Act 56 of 2003) which states that:

"Municipal tax and tariffs may not be increased during the financial year except when required in terms of a financial recovery plan."

The following table is a summary of the adjustments made to the total budget:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Total Operational Revenue	(1 239 285 017)	(1 239 285 017)	(679 905 880)	(605 562 502)	0	(1 239 285 017)
Total Operating Expenditure	1 232 625 850	1 270 254 866	544 805 006	725 449 861	(38 169 548)	1 232 085 318
Operational (Surplus)/Deficit	(6 659 167)	30 969 849	(135 100 874)	119 887 358	(38 169 548)	(7 199 699)
Total capital grants	(265 380 650)	(265 380 650)	0	(265 380 650)	0	(265 380 650)
Total Capital Expenditure	265 380 651	277 289 099	91 869 584	185 419 515	(5 208 448)	272 080 651
Overall Budget (Surplus)/Deficit	(6 659 166)	42 878 298	(43 231 290)	39 926 223	(43 377 996)	(499 698)

1.3.2 Effect of adjustments budget on provision of basic services

The adjustments budget has ensured that the budget is aligned to actual movements. Operational Revenue is not adjusted. Operational Expenditure is adjusted down by R38.1 million. Total Capital Grants is reduced by R5.2m which was an alignment to the implementation plan of the 5% allocation to operational costs for PMU. The overall surplus of the municipality is R499 thousand.

The following additional projects have been budgeted through Capital Replacement Reserve (CRR Internal-funding) in the adjustments budget:

- Generator – R3.1 million
- Electrification top up funding – R3.6 million

1.3.3 Effect of adjustments budget on service delivery and budget implementation plan

The adjustment of the 2022/23 medium-term budget has an effect on some of the performance targets in the Service Delivery Budget Implementation Plan and this plan should be amended accordingly.

1.3.4 Highlight of adjustments made to approved annual budget

Revenue

Revenue is not adjusted during this adjustment budget process. The municipality has resumed the process of cutting services for consumers who are not paying for services in order to recover the lost revenue in the first half of the financial year. The process will improve revenue collection of the municipality.

Grants

The roll over applications for the 2021/22 financial year have not been approved by National Treasury, hence revenue on government grants is not adjusted. The table below outlines details of the municipality's grants:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Operational Grants						
Equitable Share	(535 476 000)	(535 476 000)	(323 264 000)	(212 212 000)	0	(535 476 000)
Financial Management Grant	(2 100 000)	(2 100 000)	0	(2 100 000)	0	(2 100 000)
Expanded Public Works Programme	(1 161 000)	(1 161 000)	0	(1 161 000)	0	(1 161 000)
Waterberg District Grant	(4 653 653)	(4 653 653)	(237 948)	(4 415 705)	0	(4 653 653)
TOTAL OPERATIONAL GRANTS	(543 390 653)	(543 390 653)	(323 501 948)	(219 888 705)	0	(543 390 653)
Capital Grants						
Municipal Infrastructure Grant	(179 727 000)	(179 727 000)	0	(179 727 000)	0	(179 727 000)
Regional Bulk Infrastructure Grant	(40 000 000)	(40 000 000)	0	(40 000 000)	0	(40 000 000)
Water Services Infrastructure Grant	(47 640 000)	(47 640 000)	0	(47 640 000)	0	(47 640 000)
Integrated National Electrification Programme	(7 000 000)	(7 000 000)	0	(7 000 000)	0	(7 000 000)
TOTAL CAPITAL GRANTS	(274 367 000)	(274 367 000)	0	(274 367 000)	0	(274 367 000)
TOTAL GRANTS	(817 757 653)	(817 757 653)	(323 501 948)	(494 255 705)	0	(817 757 653)

Revenue by source

The table below is a summary of the budgeted Statement of Financial Performance for Mogalakwena Municipality after the adjustments:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Property rates	(91 499 609)	(91 499 609)	(46 644 065)	(44 855 544)	0	(91 499 609)
Service charges - electricity revenue	(337 414 547)	(337 414 547)	(145 036 347)	(192 378 200)	0	(337 414 547)
Service charges - water revenue	(142 649 086)	(142 649 086)	(50 576 698)	(92 072 388)	0	(142 649 086)
Service charges - sanitation revenue	(20 511 352)	(20 511 352)	(10 199 240)	(10 312 112)	0	(20 511 352)
Service charges - refuse revenue	(19 511 348)	(19 511 348)	(9 936 654)	(9 574 694)	0	(19 511 348)
Rental of facilities and equipment	(1 925 226)	(1 925 226)	(678 602)	(1 246 624)	0	(1 925 226)
Interest earned - external investments	(3 179 785)	(3 179 785)	(2 841 607)	(338 178)	0	(3 179 785)
Interest earned - outstanding debtors	(46 802 263)	(46 802 263)	(36 076 908)	(10 725 355)	0	(46 802 263)
Dividends received	0	0	0	0	0	0
Fines, Penalties and forfeits	(3 803 402)	(3 803 402)	(444 447)	(3 358 955)	0	(3 803 402)
Licences and permits	(1 862 657)	(1 862 657)	(4 164)	(1 858 493)	0	(1 862 657)
Agency services	(9 896 652)	(9 896 652)	(1 402 904)	(8 493 748)	0	(9 896 652)
Transfers and subsidies	(552 377 003)	(552 377 003)	(323 501 948)	(228 875 055)	0	(552 377 003)
Other revenue	(4 197 531)	(4 197 531)	(2 660 039)	(1 537 492)	0	(4 197 531)
Gains on disposal of PPE	(3 654 556)	(3 654 556)	(3 718 893)	64 337	0	(3 654 556)
	(1 239 285 017)	(1 239 285 017)	(683 722 515)	(605 562 502)	0	(1 239 285 017)
Capital Grants	(265 380 650)	(265 380 650)	0	(265 380 650)	0	(265 380 650)
Total Revenue	(1 504 665 667)	(1 504 665 667)	(683 722 515)	(870 943 152)	0	(1 504 665 667)

The municipality is in a process of cutting services to the consumers who have not been paying for services. The process was announced on the municipality's social media platforms on the 30 January 2023. The intention is to improve on the municipality's collection rate and cash flow status.

Expenditure by Type

The table below provides summary of adjustment made to the operating expenditure budget. The adjustments are as a result of identified savings in different line items. The table illustrates proposed adjustments

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Employee related costs	402 653 498	402 596 996	214 966 855	187 630 141	(2 666 942)	399 930 054
Remuneration of councillors	21 493 290	21 493 290	6 271 792	15 221 498	(6 901 764)	14 591 526
Debt impairment	127 925 889	127 925 889	56 289	127 869 600	(15 000 000)	112 925 889
Depreciation & asset impairment	99 460 987	99 460 987	0	99 460 987	(1 500 000)	97 960 987
Finance charges	718 635	718 635	1 672 768	(954 133)	1 842 000	2 560 635
Bulk purchases	296 500 831	281 270 831	164 168 852	117 101 979	(9 561 347)	271 709 484
Other materials	46 061 636	46 061 636	6 118 200	39 943 436	(605 027)	45 456 609
Contracted services	159 779 700	170 348 192	115 696 940	54 651 252	4 939 182	175 287 374
Transfers and subsidies	615 790	615 790	35 167	580 623	(125 000)	490 790
Other expenditure	77 415 594	119 762 620	35 818 142	83 944 478	(8 590 650)	111 171 970
Loss on disposal of PPE	0		0	0	0	0
Total Expenditure	1 232 625 850	1 270 254 866	544 805 006	725 449 861	(38 169 548)	1 232 085 318

The above proposed adjustments have taken into account projects as submitted to council on the 20th September 2022. The following projects are incorporated into the adjustment budget:

- Revamping Information Communication and Technology R19.2m
- Fleet Management R22.5m
- Personal Protective Equipment (PPE)

Expenditure per Vote

Below is a table to illustrate the adjustments on expenditure per vote:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Municipal Manager	217 355 059	212 292 059	47 257 092	165 034 967	(15 942 725)	196 349 334
Corporate Services	62 060 512	77 655 528	43 604 836	34 050 692	8 164 443	85 819 971
Budget & Treasury	85 692 510	117 426 510	60 172 310	57 254 200	(3 954 779)	113 471 731
Planning and Development	29 518 076	29 518 076	13 457 983	16 060 093	(782 426)	28 735 650
Technical Services	284 026 247	284 026 247	82 972 466	201 053 782	(7 270 171)	276 756 076
Community Services	111 010 426	110 473 426	46 597 886	63 875 540	(8 136 808)	102 336 618
Traffic and Emergency	91 347 721	91 347 721	57 390 288	33 957 433	(4 987 944)	86 359 777
Electrical Services	351 615 299	347 515 299	193 352 145	154 163 154	(5 259 138)	342 256 161
TOTAL OPERATING EXPENDITURE	1 232 625 850	1 270 254 866	544 805 006	725 449 861	(38 169 548)	1 232 085 318

Employee Cost per Vote

Below is a table to illustrate the adjustments on employee cost per vote:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Municipal Manager	50 742 770	50 742 770	28 189 599	22 553 171	1 372 095	52 114 865
Corporate Services	36 291 538	36 291 538	18 837 295	17 454 243	(907 325)	35 384 213
Budget & Treasury	35 072 524	35 016 022	19 539 003	15 477 019	1 109 176	36 125 198
Planning and Development	24 280 768	24 280 768	12 575 864	11 704 904	(538 428)	23 742 340
Technical Services	107 419 803	107 419 803	53 165 900	54 253 903	(3 702 717)	103 717 086
Community Services	86 425 000	86 425 000	45 247 120	41 177 880	(7 473 976)	78 951 024
Traffic and Emergency	47 556 446	47 556 446	22 709 941	24 846 505	(4 831 806)	42 724 640
Electrical Services	36 357 939	36 357 939	20 973 925	15 384 014	5 404 275	41 762 214
TOTAL EMPLOYEE COST	424 146 788	424 090 286	221 238 647	202 851 639	(9 568 709)	414 521 580

Capital Expenditure per Vote

Below is a table to illustrate the adjustments on capital expenditure per vote:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Municipal Manager	0	0	0	0	0	0
Corporate Services	0	3 100 000	2 379 988	720 012	0	3 100 000
Budget & Treasury	0	0	0	0	0	0
Planning and Development	6 500 000	6 500 000	0	6 500 000	(708 449)	5 791 551
Technical Services	245 227 901	219 977 901	86 411 770	133 566 131	(4 380 464)	215 597 437
Community Services	0	30 458 448	2 454 005	28 004 443	866 234	31 324 682
Traffic and Emergency	0	0	0	0	0	0
Electrical Services	13 652 750	17 252 750	623 822	16 628 928	(985 769)	16 266 981
TOTAL CAPITAL EXPENDITURE PER VOTE	265 380 651	277 289 099	91 869 584	185 419 515	(5 208 448)	272 080 651

Capital Expenditure per Grant

Below is a table to illustrate the adjustments on capital expenditure per grant and the funding of the capital budget:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
CRR	0	6 700 000	2 697 877	4 002 123	0	6 700 000
MIG	170 740 651	175 949 099	63 689 471	112 259 628	(5 208 448)	170 740 651
RBIG	40 000 000	40 000 000	19 284 515	20 715 485	0	40 000 000
INEP	7 000 000	7 000 000	305 932	6 694 068	0	7 000 000
WSIG	47 640 000	47 640 000	5 891 789	41 748 211	0	47 640 000
TOTAL CAPITAL EXPENDITURE PER GRANT	265 380 651	277 289 099	91 869 584	185 419 515	(5 208 448)	272 080 651

Capital Budget

Section 28(2) (e) of the MFMA reads as follows:

“An adjustment budget may authorize the spending of funds that were unspent at the end of the financial year where the under-spending could not reasonably have been foreseen at the time to include projected rollovers when the annual budget for the current year was approved by the council”

MBRR paragraph 23 states that:

An Adjustment Budget to approve the roll-overs of the prior year must be approved by Council by 25 August annually if there are roll-overs on projects.

Section 19(1) (d) of the MFMA states that:

“A municipality may spend money on a capital project only if—

The sources of funding have been considered, are available and have not been committed for other purposes.”

1.4 Adjustments budget tables

1.4.1 The adjustments budget tables

Table B1	Adjustments Budget Summary (attached as <u>page 185</u>)
Table B2	Adjustments Budget Financial Performance (standard classification) (attached as <u>pages 186 to 189</u>)
Table B3	Adjustments Budget Financial Performance (revenue and expenditure by municipal vote) (attached as <u>pages 190 to 193</u>)
Table B4	Adjustments Budget Financial Performance (revenue and expenditure) (attached as <u>page 194</u>)
Table B5	Adjustments Capital Expenditure Budget by vote and funding (attached as <u>pages 195 to 198</u>)
Table B6	Adjustments Budget Financial Position (attached as <u>page 199</u>)
Table B7	Adjustments Budget Cash Flows (attached as <u>page 200</u>)
Table B8	Cash Backed reserves/ accumulated surplus reconciliation (attached as <u>page 201</u>)
Table B9	Asset Management (attached as <u>pages 202 to 204</u>)
Table B10	Basic Service Delivery Measurement (attached as <u>page 205</u>)

1.4.2 Budget related information and explanatory notes

Supporting information and explanations of trends and anomalies for each table are reflected as table SB1 to SB20 (attached as pages 206 to 246)

PART 2 – SUPPORTING DOCUMENTATION

2.1 Adjustments to budget assumptions

2.1.1 Interest rates for borrowing and investment of funds

The municipality does not have any borrowings obligations. Interest on external investments earned as at 31 December 2022 is R2.9 million which is 93% of the budgeted amount.

2.1.2 Timing of Revenue Collection

The municipality is still experiencing challenges with regard to collection of revenue and therefore bad debts will continue to increase if not adequately addressed. The collection rate of the municipality for the end of December 2022 is at 48%. The collection rate is low. The lower the collection rate remains a concern for the municipality. The municipality has appointed a debt collector to assist with revenue collection.

2.2 Adjustments to budget funding

Allocations from the amended Division of Revenue Act published Government gazette no. 47302 of 14 October 2022:

There were no movements in the grants funding allocated through the Division of Revenue Act.

2.3 Adjustment to expenditure on allocation and grants programmes

The amended Division of Revenue Act Government Gazette number No. 47302 of 14 October 2022:

There were no movements in the grants allocated through the Division of Revenue Act.

2.4 Adjustments to councillor allowances and employee benefits

Table below illustrates adjustments on Employee related costs and councillors remuneration:

Description	Original	Budget	YTD Movement	Unspend Bud	Proposed Adjustment	Final Adjusted Budget
Employee related costs	402 653 498	402 596 996	214 966 855	187 630 141	(2 666 942)	399 930 054
Remuneration of councillors	21 493 290	21 493 290	6 271 792	15 221 498	(6 901 764)	14 591 526

Employee related costs is reduced by R2.6 million whilst Remuneration for councillors is reduced by R6.9 million a result of savings in the respective line items.

2.5 Adjustments to service delivery and budget implementation

Section 25 of the Municipal Systems Act requires that each municipal council must adopt a single inclusive and strategic plan for the development of the municipality. This plan must link integrate and co-ordinate plans and it should take into account proposals for the development of the municipality.

Section 34 provides that the IDP must be reviewed annually and amended if necessary. It is clear from the budget that stringent budget control must be implemented in order to sustain the viability of the municipality.

The Service delivery and Budget implementation plan has been amended accordingly as per adjustment contained in this adjustment budget.

2.6 Adjustments to capital expenditure

The municipality budgeted an additional R6.7 million for internally generated funds projects. A breakdown of capital expenditure adjustments is attached as pages 244 to 245:

2.7 Other supporting documents

No amendments were made to budget related policies.