

ADJUSTMENT OF ANNUAL BUDGET – 2020/2021 FINANCIAL YEAR: (CFO) 5/1/1/R

Purpose:

In accordance to Section 28 (1),(2),(3),(4) & (5) of the Municipal Finance Management Act, Act No. 56 of 2003 and Regulation 23(1)(2)(3) of Municipal Budget and Reporting Regulations, the Mayor hereby revise the annual budget accordingly to the prescribed **Schedule B** of the Regulations.

Background:

Following the resolution by Council to adjust the original budget further during the Mid-Term review and the subsequent engagement with the Provincial Treasury, the following adjusted budget is proposed.

The tables illustrate for comparison purpose, the previous financial year's projections, the current year performance against its budget as well as the proposed adjusted Revenue, Expenditure and Capital Budget:

REVENUE

Description	2019/20	Budget Year 2020/21			
	Audited Outcome	Original Budget	2020/21 YTD Actual (December 2020)	% of Original Budget	Proposed Adjusted Budget
Revenue By Source					
Property rates	43 139	44 380	25 679	58%	51 358
Service charges - electricity revenue	60 010	65 274	33 628	52%	65 274
Service charges - water revenue	88 467	94 952	30 695	32%	77 240
Service charges - sanitation revenue	30 151	32 223	14 156	44%	32 223
Service charges - refuse revenue	10 310	14 320	6 985	49%	14 320
Rental of facilities and equipment	330	1 418	87	6%	746
Interest earned - external investments	1 266	700	2	0%	700
Interest earned - outstanding debtors	81 484	78 479	32 367	41%	78 479
Dividends received	–	2	–	0%	2
Fines, penalties and forfeits	7 099	7 500	–	0%	7 500
Licences and permits	2 726	17 350	–	0%	17 350
Transfers and subsidies	128 390	166 519	145 332	87%	165 778
Other revenue	594	2 895	476	16%	1 687
Gains	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)	453 965	526 011	289 409	55%	512 657

EXPENDITURE

	2019/2020	Budget Year 2020/21			
Expenditure By Type	Audited Outcome	Original Budget	2020/21 YTD Actual (December 2020)	% of Original Budget	Proposed Adjusted Budget
Employee related costs	78 886	107 112	41 262	38%	103 898
Remuneration of councillors	9 151	10 052	4 875	49%	10 052
Debt impairment	327 270	124 776	–	0%	124 766
Depreciation & asset impairment	50 666	48 570	–	0%	48 570
Finance charges	10 425	1 716	528	31%	1 716
Bulk purchases	119 296	122 459	58 967	48%	122 459
Other materials	11 603	24 094	3 171	13%	24 176
Contracted services	32 346	24 889	8 582	34%	22 639
Other expenditure	30 764	27 896	8 077	29%	33 657
Total Expenditure	670 407	491 554	125 462	26%	491 933
Surplus/(Deficit)	-216 442	34 458	163 947		20 724

The following are amongst the inputs made by the Provincial Treasury:

- Budgeted Operating Revenue amount to R526 Million for the financial year 2020/21.
- As at December 2020, billed revenue amount to R268 Million or 51% against the budget of R526 Million.
- **Property rates** – Initially the budget was R44 Million and due to the first 6 months actual performance of R26 Million thus prompting an upward adjustment to R51 Million as recommended in the Mid-Term assessment.
- **Water Revenue** amount to R26 Million or 28% against the budget R94 Million, this is attributed to incomplete billing processes because of National lockdown and this indicates challenges in the billing system of the Municipality which will result in cash flow constraints due to late payments by customers.

The service is then adjusted from R94 Million to R77 Million following the Provincial Treasury recommendation.

The service charge has thus been adjusted to meet more realistic projections.

- **Sanitation and Refuse** performed at 44% and 49% respectively, this further ascertains challenges with the billing system. The service has thus not been adjusted.
- **Rental of facilities** – initially the service was budget for R1.4 Million and as a result of unit u downwards adjust of R672 thousands. This is as terms for the units rentals have reduced from 12 months projection to 4 months

- **Interest earned on External Investment** – Though the performance is only reflective of R2 thousand actual performance the service will not be adjusted as some revenues is still to be correctly classified in the financial system.
- **Dividends Received** – will also not be adjusted as its performance will only be realised at the end of the financial period.
- **Fines, penalties, licences, permits and forfeits** – will also not be adjusted as there is no show of movements on the system though there has been movements on actual performance. The item will be properly accounted for following the reconciliations between the financial system and traffic transaction books.
- **Other Revenue** Provincial Treasury made the observation, “performance amount to R29 Million or 27% against the budget of R108 Million, this item needs to be considered for adjustment as it has under-performed’.

The line item was budget for R2.8 Million and the actual performance was R476 thousands with translates to 16% thus the need to adjust the item downwards to R1.6 Million

- The Municipality’s **collection rate** has declined to 23% as per 2019/20 pre audited Annual Financial Statement as observed by the Provincial Treasury.
- **Bulk purchases and Employee related costs** are as observed by Provincial Treasury the main expenditure cost drivers at 48% and 39% respectively.
- **Employee related costs** as a percentage of operating expenditure amount to 24% against the norm of 25-40%.

The expenditure item was reduced by R3 Million from R107 Million to R103 Million following accounting for R4 Million that will be saved on vacancies the municipality did not fill as at December 2020.

The Municipality is intending to fill vacant positions however this poses sustainability risk. The performance of 39% as at December 2020 is understated, considering pre audited outcome of 91% or R88 Million against the budget.

- **Depreciation and debt impairment** - is not adjusted as they cannot be realistically measured as the items are only accounted for at the end of the financial period. The two items were not budgeted for on the original budget but was later rectified to the stated adjustment budget figures during the special adjustment budget.

Provincial Treasury has however made the following observation “Depreciation and debt impairment are not expensed on monthly basis; this could result in the increase of unauthorised expenditure. Pre-audit outcome indicate that this item was under-budgeted for”

- **Finance charges** – will not be adjusted as though it is reflecting a movement of R528 thousands or 14%, it is inevitable that the municipality will incur interest expenditure on its outstanding debt thus no adjustment on the item.
- **Other Material** (Repairs and Maintenance) – other material will see a slight increase from R24,094 Million to R24.176 Million, this is as the municipality is addressing the backlogs caused by poor infrastructure conditions.

- **Contracted services** – Provincial Treasury has observed that the expenditure item has underperformed at 34%, this is attributed to contractors not yet appointed however the spending is understated when compared to overspending on the pre audit outcome.

An aggregate adjustment of R2.2 Million will be made, that as a net effect of savings made on contracts committed later than anticipated and an allocation to rent refuse removal truck from the additional equitable share received with the December trench.

Other expenditure - amount to 22% against the budget of R53 Million, this is attributed to activities not performed due to National lockdown. The item needs to be reviewed taking into consideration past performance as well as cost containment measures as treasury observed.

The item will be adjusted from R28 Million to R33 Million as we have realised underbudgeting for Provincial Department of Transport amounting to R4 Million, Covid-19 expenditure adopted during the Special Adjustment for R3 Million reduced to R1 Million and R2 Million adjustment on fuel not previously budgeted for.

TOTAL DoRA ALLOCATION

2020/21	
GRANT	AMOUNT
Equitable share	160 864 000
MIG	28 042 000
FMG	3 000 000
EPWP	1 142 000
PIG	2 078 243
WSIG	30 000 000
Library equitable share	243 000
Municipal disaster grant	358 000
Library conditional grant	550 000
TOTAL	226 277 243

The above Table depicts the total grants allocated to the Municipality from the Division of Revenues Act.

CAPITAL

GRANTS	AMOUNT
MIG	27 460 000
FMG	700 000
PIG	2 078 243
WSIG	30 000 000
Library conditional grant	261 000
TOTAL	60 499 243

The above table reflects the total grants the municipality has committed to capital expenditure from the DoRA allocation.

The municipality has to date spent R11.6 Million on various projects and materially the following adjustments were made amongst the others as listed on the capital budget.

- National Treasury has approved a sum of R978 thousand for the project “Upgrading of roads & stormwater in Setshogo street in Tswelelang” following the municipal rollover application of R978 thousand made before the submission of the Annual Financial Statements in November 2020.
- However, upon the submission of the Annual Financial Statements the request was reassessed and due to other unspent portions the initially decision to approve was reversed. The total amount of R301 Thousand was thus offset in respect of the following unspent grants as per the 2019/20 annual financial statements:
 - Financial Management Grant R29 000
 - Municipal infrastructure grant R 93 000 (R1 070 000 – R978 000)
 - Water Services Infrastructure Grant R 179 000 from the 2018/19 financial year.
- An allocation of R12 065 366 has been reallocated to adjust various existing capital budgets more significantly, R9 Million was reallocated to a registered project “Length of bulk water supply line upgrade between Buisfontein and Tswelelang initially budgeted for R30 Million under WSIG.

OPERATING

GRANT	AMOUNT
Equitable Share	160 864 000
MIG	582 000
FMG	2 300 000
EPWP	1 142 000
Library Equitable Share	243 000
Municipal Disaster Grant	358 000
Library Conditional Grant	289 000
TOTAL	165 778 000

The above table reflects the total grants the municipality has committed to operating expenditure from the DoRA allocation.

ADJUSTED CAPITAL BUDGET 2020/2021									
IDENTIFIED PROJECT	NEW ASSETS ORIGINAL ALLOCATION	NEW ASSETS ACTUAL PERFORMANCE AT 31-Dec-2020	NEW ASSETS ADJUSTED ALLOCATION	SOURCE OF FUNDING					
				MIG	PIG	LIBRARY	FMG	WSIG	OWN INCOME
SOLID WASTE									
Purchase Solid Waste Removal Truck	1 556 634	-	1 800 000	1 800 000					
TOTAL	1 556 634	-	1 800 000						
CORPORATE SERVICES									
Industrial Vacuum cleaners X 4			60 000						60 000
TOTAL			60 000						
LED									
Witpoort Dam Development	400 000	-	686 439	686 439					
TOTAL	400 000	-	686 439						
LIBRARY									
Specialized Library furniture	250 000	-	200 000			200 000			
Electronic alarm system	30 000	-	26 000			26 000			
First Aid Kits	-	-	5 000			5 000			
Garden Equipments	-	-	30 000			30 000			
TOTAL	280 000	-	261 000						
PARKS AND CEMETERY									
Gardening Equipment			250 000						250 000
TOTAL			250 000						
ELECTRICITY									
Cherry Picker	900 000	-	972 621				-		972 621
TOTAL	952 000	-	972 621						
PUBLIC WORKS									
Length of gravel roads upgraded to block paving in Mongale and Nzanele streets in Lebaleng	4 150 000	3 994 851	4 150 000	4 150 000					
Length of stormwater channel upgraded to concrete lined channel in Wolmaransstad ext. 13 - Phase 2	3 000 000	943 134	400 000	400 000					
Length of road upgraded from gravel to block paving in Tati street in Kgakala	3 000 000	682 572	3 000 000	3 000 000					
Upgrading of roads & stormwater in Setshog street in Tswelelang	-	-	978 331	978 331					
Rehabilitation of Hester/ Leboya street in Kgakala	820 000	394 247	3 120 000	3 120 000					
Rehabilitation of Kalane street	750 000	276 255	1 655 561	1 655 561					
Rehabilitation of Tswelelang collapsed road sections	1 300 000	370 284	3 550 000	3 550 000					
TOTAL	13 020 000	6 661 343	16 853 892						
SEWER NETWORKS									
Sewer Networks Ext 14			1 200 000						1 200 000
TOTAL			1 200 000						
WATER NETWORKS									
Acquisition of water meters in old townships			2 000 000						2 000 000
Acquisition of water meters in Ext 14 x 20			9 000						9 000
Water Pipeline Ext 14			791 000						791 000
Numbers of existing boreholes refurbished in ward 5 (rollover)	-	-	2 078 243		2 078 243				
Acquisition of water tanker X 2	-	-	3 600 000						3 600 000
Length of bulk water supply line upgrade between Buisfontein and Tswelelang.	30 000 000	4 960 504	39 000 000	9 000 000				30 000 000	
TOTAL	30 000 000	4 960 504	47 478 243						
FINANCE									
Office equipment and furniture	150 000	-	150 000				150 000		
Generator	200 000	-	200 000				200 000		
Tent, tables and chairs for indigent program	50 000	-	50 000				50 000		
Meter reading	300 000	-	300 000				300 000		
TOTAL	700 000	-	700 000						
PMU									
laptops X2	30 000	-	30 000	30 000					
measuring wheel	3 000	-	3 000	3 000					-
theodolite	25 000	-	25 000	25 000					-
Furniture (PMU Manager)	40 000	-	40 000	40 000					
TOTAL	98 000	-	98 000						
TOTAL	47 006 634	11 621 847	70 360 195	28 438 331	2 078 243	231 000	700 000	30 000 000	8 882 621

Project Plan for 2020/2021 Draft Budget

The following is a proposal of the plan that will see through the adoption of the ordinary February adjustment:

DATE	ACTIVITY
1 st - 5 th March 2021	Departments to draft their own departmental budgets and submit to the Budget Office.
9 th - 12 th March 2021	Budget office to have one on ones with the Directors to finalize the Draft Budgets.
16 th March 2021	Budget steering committee to consider the budget.
18 th March 2021	Budget steering committee to finalize the draft budget.
23 rd March 2021	Exco to consider the draft to recommend to council
25 th March 2021	Council to consider the draft budget

ANNEXURE A – REVISED FINANCIAL PLAN;

ANNEXURE B – REVISED PROCUREMENT PLAN AND

ANNEXURE C – REVISED FMG SUPPORT PLAN.

IT IS RECOMMENDED THAT:

1. The 2020/2021 Adjustment Budget in accordance to Section 28 (1), (2), (3), (4) & (5) of the Municipal Finance Management Act, Act No. 56 of 2003, be approved and implemented with immediate effect.
2. Council approves the following:
 - Revised **FMG Support Plan**;
 - Revised **Financial Plan**;
 - Revised **Procurement Plan** and
 - **Project Plan** for 2021/2021 Draft Budget.
3. Adherence be given to Section 26(1) of the Regulations, within 10 days after the Municipal Council has approved an adjustment budget, the Municipal Manager to make public the approved adjustment budget and supporting documentation in accordance with Schedule B as well as the Council resolution approving it.
4. Adherence be given to Section 27(1) of the Regulations, within 10 days after the Municipal Council has approved an adjustment budget, to be submitted in printed and electronic copy in accordance to Schedule B to Provincial and National Treasury.
5. The Adjusted Service Delivery Budget Implementation Plan (SDBIP) be tabled to Council for approval.

FOR CONSIDERATION