



MATATIELE
LOCAL MUNICIPALITY

2018/2019 ADJUSTMENT BUDGET REPORT

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Glossary of Terms

Adjustments Budget - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations - Money received from Provincial or National Government or other municipalities.

Budget - The financial plan of the Municipality.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement - A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

Equitable Share - A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

GRAP - Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP - Integrated Development Plan. The main strategic planning document of the Municipality

MFMA - The Municipal Finance Management Act - No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Net Assets - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure - Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

PURPOSE

The purpose of the report is to inform council of the municipality's adjustments budget process for the 2018/2019 MTERF (Medium Term Revenue and Expenditure Framework). To submit the 2018/2019 adjustment Capital and Operating budget for Council Approval, and to advise Council of items affecting the Adjustments budget and services delivery.

LEGISLATIVE REQUIREMENT

As guided by the Local Government: Municipal Finance Management Act No.56 of 2009, Chapter 7 on roles of mayors, Chapter 4; section 28, the 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 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 a 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 of 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

BACKGROUND

As instructed by Local Government: Municipal Finance Management Act 56 of 2003, chapter 8 on responsibilities of municipal officials the Accounting officer assessed the performance of the municipality during the first half of the financial year. The midterm report was submitted to council for noting and submitted to National treasury and the relevant Provincial treasury.

During the assessment the accounting officer has seen necessary for the municipality to make an adjustments budget for the year 2018/2019

1. EXECUTIVE SUMMARY

Effect of the adjustments budget

A key consideration for the compilation of the adjustments budget was long term financial sustainability and ensuring continued service delivery and improved service delivery. In addition, the Council planned and budgeted for the extension of services to areas not sufficiently serviced in the past as well as redirecting funds for capital projects in order to complete projects where costs increased over the period of time.

The Approved revenue budget has increased due to approved roll-overs for the Municipal infrastructure grant (MIG), integrated national Electrification programme (INEP) and other municipal sources have been adjusted accordingly using the midterm performance report.

The total adjustments budget for 2018/2019 is as follows:

EXPENDITURE TYPE	APPROVED BUDGET	TOTAL AMENDMENTS	ADJUSTMENTS BUDGET	% CHANGE
OPERATING EXPENDITURE	R337 612 041	R9 302 277	R346 914 318	3%
CAPITAL EXPENDITURE	R142 082 100	R17 937 142	R160 019 242	13%
TOTAL BUDGET	R479 694 141	R27 239 419	R506 933 560	6%

OPERATING BUDGET

Type	Original Budget	Adjustments Budget	Budget Year +1 2019/20	Budget Year +2 2020/21
Revenue	479 696 468	453 962 961	518 495 289	546 146 353
Expenditure	337 612 041	346 914 318	364 260 034	389 758 236
Surplus/(Deficit)	142 084 427	107 048 643	154 235 255	156 388 117
Less Capital Transfers & Subsidies	- 142 082 100	- 107 048 642	- 154 235 000	- 156 388 700
Surplus/(Deficit) excluding capital transfers	2 327	1	255	583

CAPITAL BUDGET

Vote Description	Budget Year 2018/19			
	ORIGINAL BUDGET	TOTAL AMENDMENTS	ADJUSTMENTS BUDGET	% CHANGE
Capital expenditure - Municipal Vote				
Municipal Managers' office	345 000	-	345 000	0%
Budget & Treasury	6 390 000	-	6 390 000	0%
Corporate Services	5 415 000	-	5 415 000	0%
Development and Planning	2 965 000	- 776 000	2 189 000	-26%
Community Services	5 900 000	2 500 000	8 400 000	42%
Infrastructure	121 067 100	16 213 142	137 280 242	13%
Internal Audit	-		-	
Total Capital Expenditure	142 082 100	17 937 142	160 019 242	13%

The funding for the adjusted capital budget is as follows;

FUNDING SOURCES	APPROVED BUDGET	ADJUSTMENTS BUDGET	NET EFFECT
Own Reserves	43 646 600	52 970 600	9 324 000
National Government	98 435 500	106 348 642	7 913 142
Provincial Government	0	700 000	700 000
TOTAL FUNDING	142 082 100	160 019 242	17 937 142

2. ADJUSTMENTS BUDGET TABLES

Revenue by source

Description	Budget Year 2018/19				Budget Year +1 2019/20	Budget Year +2 2020/21
	ORIGINAL BUDGET	TOTAL AMENDMENTS	ADJUSTMENTS BUDGET	% CHANGE		
Revenue By Source						
Property rates	35 612 498	6 387 502	42 000 000	18%	44 100 000	46 305 000
Service charges - electricity revenue	51 956 560	-	51 956 560	0%	54 554 388	57 282 107
Service charges - refuse revenue	9 859 760	-	9 859 760	0%	10 352 748	10 870 385
Rental of facilities and equipment	1 700 000	-	1 700 000	0%	1 785 000	1 874 250
Interest earned - external investments	8 900 877	1 199 123	10 100 000	13%	9 345 921	9 813 217
Interest earned - outstanding debtors	5 966 840	1 500 000	7 466 840	25%	6 265 182	6 578 441
Fines, penalties and forfeits	2 330 531	-	2 330 531	0%	2 447 058	2 569 410
Licences and permits	3 849 000	-	3 849 000	0%	4 039 350	4 241 318
Transfers and subsidies-Operational	215 541 500	313 326	215 854 826	0%	234 221 750	252 591 300
Other revenue	1 896 802	100 000	1 796 802	-5%	1 991 642	2 091 224
Total Revenue (excluding capital transfers and contributions)	337 614 368	9 299 951	346 914 319	3%	369 103 039	394 216 653
Transfers and subsidies-Capital	98 435 500	8 613 142	107 048 642	9%	104 392 250	106 929 700
Capital Replacement Reserves	43 646 600	-	-	-100%	45 000 000	45 000 000
Total Revenue after capital transfers & contributions	479 696 468	25 733 507	453 962 961	-5%	518 495 289	546 146 353

Remarks on Revenue;

1. A net decrease of R25,7 million on the total revenue mainly due to the following;
 - a) Increased property rates budget to align to the new general valuation roll,
 - b) Increase interest earned on external investments due increased effectiveness of the municipality's investment strategy that will plough back into service delivery projects,
 - c) Increased interest earned on outstanding debtors due to increased valuation and non-payment by consumers,
 - d) Increased operational transfers and subsidies due to unspent library & museum grant from the 2017/18,
 - e) A net decrease on other revenue as a result of increase pound fees revenue that was under budgeted for on the annual budget and decreased ticket sales that included sales of tickets from the music festival, the latter projects was cancelled for the 2018/19 year,
2. The following are adjustments made under capital transfers and grants;
 - a) Increase capital grants due to inclusion of unspent 2017/18 MIG and INEP that were approved for the municipality,
 - b) On the approved budget 2018/19 the capital replacement reserves were included on the revenue budget, as guided by National treasury this should not be part of our revenue budget, the major decrease is as a result of excluding the reserves from the revenue budget.

Operating Expenditure by type

Description	Budget Year 2018/19					
	ORIGINAL BUDGET	TOTAL AMENDMENTS	ADJUSTMENTS BUDGET	% CHANGE	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands						
Expenditure By Type						
Employee related costs	114 330 288	1 718 434	116 048 722	2%	124 172 133	132 864 182
Remuneration of councillors	20 227 228	-	20 227 228	0%	21 643 134	23 158 153
Debt impairment	5 000 000	-	5 000 000	0%	5 350 000	5 724 500
Depreciation & asset impairment	15 547 718	-	15 547 718	0%	16 636 058	17 800 582
Finance charges	-	-	-	-	-	-
Bulk purchases	42 000 000	-	42 000 000	0%	44 940 000	48 085 800
Other materials	6 258 228	55 000	6 203 228	-1%	6 637 454	7 102 076
Contracted services	82 831 549	4 676 004	87 507 553	6%	93 633 082	100 187 397
Transfers and subsidies	150 000	-	150 000	0%	160 500	171 735
Other expenditure	51 267 030	2 962 839	54 229 869	6%	58 025 960	62 087 777
Total Expenditure	337 612 041	9 302 277	346 914 318	3%	371 198 320	397 182 203

Remarks on operating expenditure;

1. A net increase of R9,3 million in operating expenditure mainly due to the following;
 - a) Increased employee related costs due to vacant positions have been prioritised to be filled in the 2018/19 year and inclusion on museum curator post to be funded from the library and museum support grant.
 - b) A slight net increase on other materials due to movements of savings within expenditure types
 - c) Net increased contracted services due increase budget for expanded public works programme, building maintenance, feasibility study and other accounting services.
 - d) A net increase on other expenditure due to increased budget for skills development, external bursaries and inclusion of budget for public participation programme

Capital Expenditure

Vote Description	Budget Year 2018/19			
	ORIGINAL BUDGET	TOTAL AMENDMENTS	ADJUSTMENTS BUDGET	% CHANGE
Capital expenditure - Municipal Vote				
Municipal Managers' office	345 000	-	345 000	0%
Budget & Treasury	6 390 000	-	6 390 000	0%
Corporate Services	5 415 000	-	5 415 000	0%
Development and Planning	2 965 000	- 776 000	2 189 000	-26%
Community Services	5 900 000	2 500 000	8 400 000	42%
Infrastructure	121 067 100	16 213 142	137 280 242	13%
Internal Audit	-		-	
Total Capital Expenditure	142 082 100	17 937 142	160 019 242	13%
Funding Sources				
National Grants	98 435 500	7 913 142	106 348 642	8%
Provincial Grants	-	700 000	700 000	-
Municipal Capital Replacement Reserves	43 646 600	9 324 000	52 970 600	21%
Total Capital Expenditure funding	142 082 100	17 937 142	160 019 242	13%

Remarks on capital expenditure;

- A net increase of R17,9 million is mainly due to the following;
 - A decrease under economic development and planning due to reprioritisation of the fresh produce budget for utilisation under infrastructure department.
 - Net increased budget for community services as a result of including the skip loader truck whose expenditure was unavoidable and inclusion of budget for the library vehicle that will be funded from the unspent library and museum grant from 2017/18 year.
 - Net increase under the infrastructure department due to inclusion of roll over projects as approved by national treasury, increased budget for the construction of Council chambers and utilisation of savings from economic development due to reprioritisation of projects.
- The capital expenditure funding has also increased by R17,9 as detailed as follows;
 - Increase Municipal Infrastructure Grant to include approved rollover of R4 million
 - Increased Integrated National Electrification Grant to include approved rollover of R3, 8 million.
 - Inclusion of provincial funding from unspent library and museum support grant of R700 000.
 - Increase capital replacement reserves due to more investments made to enhance service delivery projects.

The following projects were included in the 2018/19 adjustments budget;

PROJECT DESCRIPTION	APPROVED BUDGET	AMENDMENT	ADJUSTMENTS BUDGET
LAPTOPS	-	184 000	184 000
SKIP LOADER TRUCK	-	1 650 000	1 650 000
FURNITURE & EQUIPMENT (LIBRARY GRANT)	-	200 000	200 000
LIBRARY DOUBLE CAB	-	500 000	500 000
KINIRA TO SHERPARD HOPE ACCESS ROAD	-	2 100 000	2 100 000
MAHARENG AND CHERRE	-	2 558 056	2 558 056
NKALI	-	1 324 386	1 324 386
FURNITURE & EQUIPMENT	-	80 000	80 000
	-	8 596 442	8 596 442

Remarks on added capital projects;

- Savings from Furniture & Equipment utilised to procure laptops for various units.
- The skip loader truck's budget was provided from approved virement and needs to be included in the adjustments budget.
- To include the library double cab to be funded from the unspent library and museum grant.
- To include Nkali, Mahareng & Chere electrification that were approved as rollover
- Kinira to Shepard hope access road as an avoidable and unforeseeable expenditure needs to be included in the adjustments budget.
- Additional budget for Furniture and equipment for public amenities to be funded from the unspent library and museum grant.

The budget of the following projects was reprioritised;

PROJECT DESCRIPTION	APPROVED BUDGET	AMENDMENT	ADJUSTMENTS BUDGET
TSITSONG	3 444 000	- 3 444 000	-
KWA MATIAS ELECTRIFICATION	2 898 000	- 2 898 000	-
TELEPHONE HANDSETS	1 100 000	- 1 100 000	-
PALISADE FENCING	1 000 000	- 1 000 000	-
FRESH PRODUCE MARKET LED	800 000	- 800 000	-
	9 242 000	- 9 242 000	-

- The budget for Tsitsong electrification moved to Khohlong and Tsitsong electrification due to merging of the two projects.
- The budget for KwaMatias electrification moved to Goxa and KwaMatias electrification due to merging of the two projects.
- The telephone and handset budget moved to computer equipment budget.
- Palisade fencing budget has been moved to the pound structure due to merging of the two projects.
- The budget for the fresh produce market has been reprioritised to fund the Council Chambers

Grants and Subsidies

Grant Description	Approved Budget	Amendments	Adjustments Budget
Local Government Equitable Share	207 642 000	-	207 642 000
EPWP Incentive	3 185 000	-	3 185 000
Finance Management	1 700 000	-	1 700 000
Municipal Infrastructure Grant (MIG)	59 690 000	4 030 700	63 720 700
Sport and Recreation	600 000	1 012 200	1 612 200
Integrated National Electrification Programme	41 160 000	3 882 442	45 042 442
	313 977 000	8 925 342	322 902 342

Remarks grant and subsidies;

1. A net increase of R8,9 is mainly due to the following;
 - a) Approved rollover of R4 million for the municipal infrastructure grant
 - b) Approved rollover of R3,8 million for the integrated electrification grant
 - c) Unspent amount of R1 million for the library and museum grant.

4. Overview of budget Policies, budget assumptions and budget funding

Budget Related Policies

There are no changes to the budget assumptions proposed in the adjustments Budget

Budget Assumptions

There are no changes to the budget assumptions proposed in the adjustments budget

Budget Funding

The adjustments budget is cash . funded which is an indicator of a %redible+ budget.

Funding levels are acceptable (inclusive of the Reserve balances), which is remarkable in these economic times, and is sufficient to cover all requirements of the funding and reserves policy.

5. RECOMMENDATIONS BY ACCOUNTING OFFICER

It is recommended that;

1. The adjustments budget, inclusive of changes in terms of section 28(2) of the MFMA, of Matatiele Municipality for the financial year 2018/2019; and indicative for the two projected years 2019/20 and 2020/21, as set-out in the schedules, be approved:
2. The approved revenue budget of R479, 6 million to adjustments revenue budget of R453, 9 million be approved.
3. The approved operating budget of R337, 6 million to operating adjustments budget of R346, 9 million be approved.
4. The approved capital budget of R142 million to adjustments capital budget of R160, million be approved.
5. The inclusion of roll over capital projects from 2017/18 be noted.
6. The amended performance objectives as contained in the SDBIP be approved.
7. It be noted that there are no changes to any budget related policies.
8. It be noted that there are no changes in the budget assumptions

