



NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY

C05/02/2018 MUNICIPAL ADJUSTMENT BUDGET FOR 2017/18 FINANCIAL YEAR

1. PURPOSE

To request the council to:

- 1.1. Approve the proposed total revenue adjustment budget from R 930,250 million to R 932,531 million for 2017/18 financial year.
- 1.2. Approve the proposed operating expenditure adjustment budget from R 795,216 million to R 799,645 million for 2017/18 financial year.
- 1.3. Approve the proposed operating revenue adjustment budget from R 622,675 million from R 624,956 million for 2017/18 financial year.
- 1.4. That the accounting officer of a municipality submits the approved adjustment
 - 1.4.1. in both and electronic formats to the National Treasury and the relevant provincial treasury; and
 - 1.4.2. in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

2. LEGISLATIVE BACKGROUND

The adjustments budget process is regulated by Municipal Budgeting and Reporting Regulations 23, sub-regulation (1) to (6) which were developed to establish uniform norms and standards in the budgeting and reporting structures of municipalities. These regulations further states that an adjustments budget may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled to council, but not later than 28 February of the current year.

In addition to that, section 28 of the Municipal Finance Management Act 56 of 2003 stipulates that:

- 1) A municipality may revise an approved annual budget through an adjustment budget.
- 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;



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- b) may appropriate, additional revenue that has become available over and above those anticipated annual budget , but only to revise or accelerate spending programs already budget for;
- c) may, within a prescribed framework ,authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- d) may authorize the utilization of projection savings in one vote towards spending under another vote;
- e) 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;
- f) may correct any errors in the annual budget; and
- g) may provide for any other expenditure within a prescribed framework.

3. DISCUSSIONS

3.1. MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT FOR THE PERIOD ENDING 31 DECEMBER 2017

3.1.1. Operating Revenue Framework

The total original budget for the operating revenue for 2017/18 financial year is R 622,675 million. The total operating revenue received from July to December 2017 is R432, 125 million which translates to 69.4 % of total operating revenue budget.

Table 1: Operating Revenue by Source

Description	2016/17	Budget Year 2017/18				
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
R thousands						
Financial Performance						
Property rates	1	-	-	-	-	
Service charges	1,905	2,200	325	1,100	(775)	-70%
Investment revenue	4,783	400	2,908	200	2,708	1354%
Transfers recognised - operational	572,737	619,361	428,463	309,681	118,783	38%
Other own revenue	1,199	714	430	357	73	20%
Total Revenue (excluding capital transfers and contributions)	580,626	622,675	432,125	311,338	120,788	39%



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For the period ending December 2017 as shown in the table 1 above, the following actual amounts of revenue received were the same as the expected amounts to be received for the following items.

- Financial Management Grant - R 1,795 million
- Expanded Public Works Programme - Incentive Grant - R 909 thousand
- Other Revenue - R 1,5 million

The following amounts were received as per the sources outlined but were not budgeted for in the 2017/18 financial year.

- An amount of R 235 836 thousand was received from Local Government SETA.
- An amount of R 18,354 million was also received from South African Revenue Services.
- An amount of R46 thousand was also received from interest earned on external investments.

For the operating grants and subsidies, the following actual amount received was less than the expected amounts to be received as per DoRA.

- The year to date equitable share received is R 428,463 million instead of R 432,201 million which translate to a difference of R3, 738 million that was off-set by National Treasury for unspent conditional grants of 2016/17 financial year.

For the following items, the actual amounts received were less than the estimated amounts to be received for July to December 2017.

- Rental of facilities and equipment was estimated at R 105 thousand but the municipality collected an amount of R 101 thousand, which leaves a shortfall of R 4 000 thousand.



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4. Capital Revenue Framework

Table 2: Transfers Recognized- Capital

Description R thousands	2016/17	Budget Year 2017/18				
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
Financial Performance						
Transfers recognised - capital	109,221	307,575	74,553	153,788	(79,234)	-52%
Total transfers recognised	109,221	307,575	74,553	153,788	(79,234)	-52%

The total original budget for the capital revenue for 2017/18 financial year is R 307,575 million. The total capital revenue received from July to December 2017 is R 92,145 million. This includes an amount of R 90,370 million for Municipal Infrastructure grant (MIG) and R 1,775 million for Rural Roads Asset Management System Grant (RRAMS) respectively. Following that, the year to date capital revenue recognised is R 74, 553 million which translates to 48, 47% of the year to date budget.

As shown above, the following actual amounts of capital revenue were received as the expected for the period ending December 2016:

- Rural Roads Asset Management Systems Grant, an amount of R 1,775 million was received as expected.

For the capital grants, the following actual amount was received less than the expected as per DoRA.

- For Municipal Infrastructure Grant (MIG), an amount of R 226,404 million was expected for the period ending December 2017 as per National Treasury payment schedule. However, only R 90, 370 million was received which leaves a balance of R 136,034 million. The R 136, 034 million balance is being withheld by National Treasury due to non-compliance with the Division of Revenue Act and Municipal Finance Management Act 56 of 2003.



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5. EXPENDITURE FRAMEWORK

Table 3: Expenditure by Type

Description R thousands	2016/17	Budget Year 2017/18				
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
Employee costs	307,961	311,477	150,826	155,739	(4,912)	-3%
Remuneration of Councillors	8,191	12,507	3,747	6,254	(2,507)	-40%
Depreciation & asset impairment	368,819	323,478	-	161,739	(161,739)	-100%
Finance charges	-	500	-	250	(250)	-100%
Materials and bulk purchases	6,122	25,235	16,499	12,618	3,882	31%
Transfers and grants	-	2,000	-	1,000	(1,000)	-100%
Other expenditure	121,344	120,019	35,253	60,009	(24,756)	-41%
Total Expenditure	812,437	795,216	206,325	397,608	(191,283)	-48%

For period ending December 2017, the municipality was expected to spend 50% or R 397,608 million of its annual operational expenditure budget of R 795,216 million. However, the year-to-date actual expenditure is 48 % or R 206,325 million. This indicates that the municipality has spent less by 2 % or R 191,283 million on the operational expenditure budget for the period ending December 2017.

Table 4: Expenditure performance per Department / Vote

Vote Description R thousands	2016/17	Budget Year 2017/18					
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %
Expenditure by Vote							
Vote 1 - Executive & Council	20,142	35,252	1,670	10,186	17,626	(7,440)	-42.2%
Vote 2 - Municipal Manager	42,526	46,801	7,707	17,471	23,401	(5,930)	-25.3%
Vote 3 - Budget and Treasury Office	415,181	356,545	3,237	17,365	178,273	(160,908)	-90.3%
Vote 4 - Corporate Services Support	52,839	65,278	4,098	24,405	32,639	(8,234)	-25.2%
Vote 5 - Growth and Economic Development	17,155	26,731	1,267	8,221	13,366	(5,144)	-38.5%
Vote 6 - District Public Health and Safety	127,502	124,118	9,861	68,503	62,059	6,444	10.4%
Vote 7 - District Infrastructure Maintenance and Development	137,092	140,490	15,927	60,175	70,245	(10,070)	-14.3%
Total Expenditure by Vote	812,437	795,216	43,768	206,325	397,608	(191,283)	-48.1%



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5.1. EXPENDITURE PERFORMANCE PER VOTE

Accordingly, the expenditure budget performance for the mid-term should be at 50% for the period ending 31 December 2017.

Vote 1: Executive and Council

From year to date budget of R17, 626 million vote 1 spent an amount of R 10,186 million, which translate into an underspending of 42.2 %.

Vote 2: Municipal Manager

From year to date budget of R 23,401 million vote 2 spent an amount of R 17,471 million, which translate into an underspending of 25.3%.

Vote 3: Budget and Treasury Office

From year to date budget of R 178,273 million vote 3 spent an amount of R 17,365 million, which translate into an underspending of 90.3%.

Vote 4: Corporate Resource Services Support

From year to date budget of R 32,639 million vote 4 spent an amount of R 24,405 million, which translate into an underspending of 25.2%.

Vote 5: Growth and Economic Development

From year to date budget of R 13,366 million vote 5 spent an amount of R 8,221 million, which translate into an underspending of 38.5 %.

Vote 6: District Public Health and Safety

From year to date budget of R 62,059 million vote 6 spent an amount of R 68,503 million, which translate into an overspending of 10.4%.

Vote 7: District Infrastructure Maintenance and Development

From year to date budget of R 70,245 million vote 7 spent an amount of R 60,175 million, which translate into an underspending of 14.3%.





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Table 5: Employee and Councillors Remuneration

Summary of Employee and Councillor remuneration	2016/17	Budget Year 2017/18				
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
R thousands						
<u>Councillors (Political Office Bearers plus Other)</u>						
Basic Salaries and Wages	5,095	7,575	2,283	3,787	(1,505)	-40%
Pension and UIF Contributions	669	1,270	282	635	(353)	-56%
Medical Aid Contributions	123	270	87	135	(48)	-35%
Motor Vehicle Allowance	1,842	2,619	895	1,310	(415)	-32%
Cellphone Allowance	393	553	168	276	(108)	-39%
Other benefits and allowances	70	220	32	110	(78)	-71%
Sub Total – Councillors	8,191	12,507	3,747	6,254	(2,507)	-40%
<u>Senior Managers of the Municipality</u>						
Basic Salaries and Wages	46,834	3,738	2,615	1,869	746	40%
Pension and UIF Contributions	9,602	1,032	476	516	(40)	-8%
Medical Aid Contributions	4,254	216	180	108	72	67%
Motor Vehicle Allowance	4,656	720	332	360	(28)	-8%
Cellphone Allowance	73	43	25	22	3	14%
Housing Allowances	370	480	–	240	(240)	-100%
Payments in lieu of leave	907	990	–	495	(495)	-100%
Long service awards	3,840	–	–	–	–	
Post-retirement benefit obligations	1,474	525	363	262	101	38%
Sub Total - Other Municipal Staff	72,010	7,744	3,991	3,872	119	3%
<u>Other Municipal Staff</u>						
Basic Salaries and Wages	128,096	198,442	87,423	99,221	(11,797)	-12%
Pension and UIF Contributions	24,878	38,361	17,915	19,181	(1,266)	-7%
Medical Aid Contributions	13,195	16,749	9,095	8,375	720	9%
Overtime	19,371	4,452	7,183	2,226	4,957	223%
Motor Vehicle Allowance	7,996	13,701	5,574	6,850	(1,277)	-19%
Cellphone Allowance	63	198	103	99	5	5%
Housing Allowances	242	1,128	256	564	(308)	-55%
Payments in lieu of leave	1,299	3,042	–	1,521	(1,521)	-100%
Post-retirement benefit obligations	40,810	27,662	19,287	13,831	5,456	39%
Sub Total - Other Municipal Staff	235,950	303,733	146,836	151,866	(5,031)	-3%
TOTAL SALARY, ALLOWANCES & BENEFITS	316,152	323,984	154,573	161,992	(7,419)	-5%





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Table 5 above shows the following expenditure on councillors, senior managers and staff benefits for the period ending December 2017.

- The year to date actual expenditure for councilor's remuneration for period ending 31 December 2017 is R 3,747 million or 60 % of year to date budget of R 6,254 million.
- The year to date actual expenditure for senior managers for period ending 31 December 2017 is R 3,991 million or 103, 07 % of the year to date budget of R 3,872 million.
- The year to date actual expenditure for municipal staff for period ending 31 December 2017 is R 146,836 million or 97 % of the year to date budget of R 151, 866 million.

Table 6: Operating Expenditure of Transfers and Grants

Description	Ref	2016/17	Budget Year 2017/18				
		Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
R thousands							
<u>EXPENDITURE</u>							
-							
<u>Operating expenditure of Transfers and Grants</u>							
National Government:		563,356	619,361	206,325	309,681	(103,355)	-33.4%
Local Government Equitable Share		551,681	616,267	205,564	308,134	(102,570)	-33.3%
RSC Levy Replacement		-	-	-	-	-	-
Finance Management		1,460	1,795	366	898	(532)	-59.3%
Municipal Systems Improvement		-	-	-	-	-	-
Water Services Operating Subsidy		8,637	-	-	-	-	-
EPWP Incentive		1,578	1,299	396	650	(253)	-39.0%
Total operating expenditure of Transfers and Grants:		563,356	619,361	206,325	309,681	(103,355)	-33.4%

The table above shows that, the year to date operating expenditure of transfers and grants for the period ending December 2017 is R 206,325 million or 66.62% of R 309,681 million of the year to date budget. For period ending December 2017, operating expenditure of transfers and grants was recorded as follows:

- Local Government Equitable Share expenditure to date is 67 % or R 205,564 million of the year to date budget.





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- Finance Management Grant expenditure to date is 41 % or R366 thousand of the year to date budget.
- EPWP Incentive Grant expenditure to date is 61% or R396 thousand of the year to date budget.

Considering the above analysis, the National Treasury may evoke section 216 (2) of the Constitution of South Africa, 1996 which suggest stopping or reducing of the transfer to the municipality due to underspending of operating grants and transfers. Furthermore, a note should be taken that Municipal System Improvement Grant is as an in-kind allocation, meaning that the municipality has to spend first and claim back their expenses from the funding institution.

Table 7: Capital expenditure of transfers and grants

Description	2016/17	Budget Year 2017/18				
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
R thousands						
<u>EXPENDITURE</u>						
<u>Capital expenditure of Transfers and Grants</u>						
National Government:						
Municipal Infrastructure Grant (MIG)	106,840	305,040	73,251	152,520	(79,269)	-52%
Rural Road Asset Management Systems Grant	2,381	2,535	767	1,268	(500)	-39%
Water Service Infrastructure Grant	9,381	-	-	-	-	
Total capital expenditure of Transfers and Grants	118,602	307,575	74,553	153,788	(79,234)	-51.5%

The table above shows that, the year to date capital expenditure of transfers and grants for the period ending December 2017 is R 74,553 million or 48,47% of R 153,788 million of the year to date budget. For period ending December 2017, capital expenditure of transfers and grants was recorded as follows:

- Municipal Infrastructure Grant expenditure to date is 48 % or R 73,251 million of the year to date budget. Rural Road Asset Management Systems Grant expenditure to date is 61 % or R767 thousand of the year to date budget.





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Table 8: Cashflow Statement Actual for the period ending 31 December 2017

Description	2016/17	Budget Year 2017/18 R'000					
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %
R thousands							
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Ratepayers and other	-	3,314	5,258	19,469	1,657	17,812	1075%
Government - operating	926,936	619,361	201,684	431,167	309,681	121,487	39%
Government - capital	-	307,575	43,000	92,145	153,788	(61,643)	-40%
Interest	400	-	262	4,060	-	4,060	#DIV/0!
Dividends	-	-	-	-	-	-	
Payments							
Suppliers and employees	-	(594,626)	(76,210)	(289,119)	(297,313)	(8,194)	3%
Finance charges	-	(1,500)	-	-	(750)	(750)	100%
Transfers and Grants	-	(13,094)	(2,000)	(8,382)	(6,547)	1,835	-28%
NET CASH FROM/(USED) OPERATING ACTIVITIES	927,336	321,030	171,994	249,340	160,515	(88,825)	-55%
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	-	(321,030)	34,653	(95,412)	-	95,412	#DIV/0!
NET CASH FROM/(USED) INVESTING ACTIVITIES	-	(321,030)	34,653	(95,412)	-	95,412	#DIV/0!
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
Short term loans	-	-	-	-	-	-	
Borrowing long term/refinancing	-	-	-	-	-	-	
Increase (decrease) in consumer deposits	-	-	-	-	-	-	
Payments							
Repayment of borrowing	-	-	-	-	-	-	
NET CASH FROM/(USED) FINANCING ACTIVITIES	-	-	-	-	-	-	
NET INCREASE/ (DECREASE) IN CASH HELD	927,336	-	206,648	153,928	160,515		
Cash/cash equivalents at beginning:			14,066	14,066	-		
Cash/cash equivalents at month/year end:	927,336	-	220,714	167,994	160,515		





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The total cash and cash equivalents at the beginning of July 2017 was R 14,066 million and R167, 994 million at the end of December 2017. As at the end of December 2017, the receipts amounts to R546, 840 million and cash payments made were R 297,500 million. The biggest portion of receipts was equitable share at an amount of R 428,463 million or 78, 35 % of the total receipts.

The main cost drivers in terms of cash payments for period ended December 2017 were employee related costs and remuneration of councillors for R 147,900 million, R 107,325 million for general expenses and R 95,412 million for capital assets.

6. EXPENDITURE ADJUSTMENT BUDGET PROPOSALS

6.1. Considerations for adjustment budget proposals

Owing to the fact that the current budget is not adequately funded, the following consideration informed the adjustment for 2017/18 expenditure budget:

- the *revenue* budget figures must balance with the *expenditure* budget figures.
- the additional revenue received caused the expenditure budget to be adjusted upwards.
- that the municipality may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure incurred during year
- that the municipality may authorise the utilization of projected savings in one vote towards the spending under another vote;





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Table 9: Summary of Budget Performance as at 15 February 2018

SUMMARY				
Expenditure Category	Non-Spending Items	Unauthorized Expenditure	Budget Exceeded as at 15 Feb 2018 (excluding remainder of the financial year(5months))	Net Balance
Operational	35,510,935.00	(4,513,740.27)	(11,931,284.12)	19,065,910.61
				(857,299.58)
			AGSA	2,500,000.00
			Litigations (Contigent liabilities)	3,200,000.00
			Eskom	2,689,125.00
			Water Tankering	6,000,000.00
			Telephones	1,699,159.19
			Fuel & Oils	534,926.00
			Car Rental Mayor	300,000.00
			SALGA Levies	3,000,000.00
				19,923,210.19



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Table 10: Summary of Non-spending Items as at 15 Feb 2018

Item Description	Function Name	Non-Spending Items as at 15 Feb 18
		R'000
Business and Advisory - Accounting and Auditing	Budget and Treasury Office	2,000,000.00
Business and Advisory - Valuer and Assessors	Budget and Treasury Office	1,000,000.00
Interest Paid - Interest costs non-current Provisions	Budget and Treasury Office	500,000.00
Contractors - Maintenance of Equipment	Fire Fighting and Protection	1,000,000.00
Consumables - Standard Rated	Fire Fighting and Protection	1,000,000.00
Operational Cost - Samples and Specimens	Core Function - Water Distribution	1,000,000.00
Operational Cost - Uniform and Protective Clothing	Fire Fighting and Protection	1,500,000.00
Operational Cost - Uniform and Protective Clothing	Core Function - Water Distribution	1,500,000.00
Maintenance of Unspecified Assets	Sewerage	10,000,000.00
Contractors - Maintenance of Unspecified Assets	Roads	500,000.00
Contractors - Stage and Sound Crew	Mayor and council	100,000.00
Contractors - Catering Services	Mayor and council	100,000.00
Outsourced Services - Transport Services	Mayor and council	100,000.00
Outsourced Services - Professional Staff	Municipal Manager	300,000.00
Outsourced Services - Professional Staff	Economic Development/Planning	200,000.00
Bulk Purchases - Water	Core Function - Water Distribution	2,000,000.00
Operational Cost - Printing, Publications and Books	Mayor and council	150,000.00
Renovations Buildings	Corporate Support	6,000,000.00
Grand Total		28,950,000.00





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Table 11: Summary of proposed budget shift per line Items

Transfer to:		
Item Description	Function Name	Proposed Adjustment Budget for 2017/18
		R'000
Operational Cost - External Audit Fees	Budget and Treasury Office	2,500,000.00
Accounting and Auditing	Budget and Treasury Office	4,429,229.00
Labour Awards(Finalised)	Corporate Support	3,200,000.00
Fuel & Oil	Corporate Support	534,926.00
Recruitment	Corporate Support	305,654.00
Sever	Corporate Support	340,000.00
Accomodation	Corporate Support	300,000.00
Labour Awards(Unfinalised)	Corporate Support	1,304,066.00
Telephone	Corporate Support	1,700,000.00
Legal Cost - Legal Advice and Litigation	Corporate Support	1,250,000.00
Salga Levies	Corporate Support	1,300,000.00
Outsourced Services - Water Takers	Core Function - Water Distribution	6,000,000.00
Eskom for boreholes	Core Function - Water Distribution	2,689,125.00
Car Rental	Mayor and council	300,000.00
IDP Consultation	Planning and Development	319,000.00
Water Week	Planning and Development	282,000.00
Dr Silas Molema Sculpture	Planning and Development	500,000.00
SDF First Draft	Planning and Development	400,000.00
Disaster Response and Relief Material	Community Services	1,000,000.00
Municipal Health Awareness Campaigns	Community Services	46,000.00
Accommodation	Municipal Manager	50,000.00
Accommodation	Budget and Treasury Office	50,000.00
Accommodation	Community Services	50,000.00
Accommodation	Economic Development/Planning	50,000.00
Accommodation	Core Function - Water Distribution	50,000.00
Grand Total		28,950,000.00





7. RECOMMENDATIONS

It is recommended that:

- 7.1 Approve the proposed total revenue adjustment budget from R 930,250 million to R 932,531 million for 2017/18 financial year.
- 7.2 Approve the proposed operating expenditure adjustment budget from R 795,216 million to R 799,645 million for 2017/18 financial year.
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