

MHLONTLO LOCAL MUNICIPALITY

SCHEDULE B

THIRD ADJUSTMENT BUDGET AND

SUPPORTING DOCUMENTATION

ADJUSTED BUDGET OF
MHLONTLO LOCAL
MUNICIPALITY



2019/2020

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- **At www.mhlontlolm.gov.za**

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Abbreviations and Acronyms

ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DoRA	Division of Revenue Act
EE	Employment Equity
FBS	Free basic services
GRAP	Generally Recognised Accounting Practice
GDP	Gross domestic product
GFS	Government Financial Statistics
HR	Human Resources
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act Programme
MIG	Municipal Infrastructure Grant
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Adjusted Budget

1.1 Mayor’s Report

Since the declaration of the National State of Disaster on 15 March 2020, municipalities have been required to perform certain essential and emergency municipal services to address, prevent and combat the spread of COVID-19 in South Africa.

National government has made available more than R5 billion in support to municipalities to assist them in responding to the COVID-19 pandemic in the 2019/20 municipal financial year. This support is assisting municipalities to provide additional access to basic services for vulnerable communities during the lockdown and to sanitize public transport facilities as the economy undergoes a phased re-opening.

The largest amounts have been made available through the reallocation of conditional grant funds already allocated to municipalities in 2019/20. While the 2019/20 national and provincial financial years ended on 31 March 2020, the municipal financial year runs until 30 June 2020. This means that grant funds transferred from national government before the end March 2020, still had another 3 months to be spent by municipalities.

National Treasury has granted approvals that funds transferred to municipalities but not contractually committed can be reallocated to be used to respond to the COVID-19 pandemic. These reallocations approved in terms of section 20(6) of the Division of Revenue Act, 2019, include:

- R2.4 billion in Urban Settlements Development Grant allocations to metropolitan municipalities. These funds will be used for providing water and sanitation, mainly in under-serviced informal settlements and to cover the increased costs of more frequent waste management and other services.
- R1.5 billion in Municipal Infrastructure Grant allocations can be reallocated for the provision of water and sanitation, including where urgent maintenance is needed to restore the functionality of water infrastructure.
- R970 million in Public Transport Network Grant allocations may be reallocated, mainly for sanitisation of public transport facilities.
- R306 million in the indirect Regional Bulk Infrastructure Grant was reallocated at the end of the 2019/20 national financial year and transferred to Rand Water to fund the roll-out of water tanks to supply communities without reliable access to water services.

A further amount of R151 million has been approved for release from the Municipal Disaster Relief Grant to support non-metropolitan municipalities with the costs of sanitisation, and increased provision of other municipal services. Government is also supporting municipalities to reallocate funds from other conditional grants that are projected to be underspent.

Details of further support to municipalities in the 2020/21 municipal financial year will be announced when the Minister of Finance tables the special adjustment budget to respond to the COVID-19 pandemic that was announced by the President.

Mhlontlo Local Municipality was allocated an amount of R536 thousand to address all COVID-19 related expenditures.

LEGISLATIVE BACKGROUND

1.1.1 Summary of reasons for the 2019/20 Adjustments Budget

In accordance with section 28 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA), a municipality must revise its approved annual budget through an adjustments budget, in the following circumstances:

- a) To adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue;
- b) To appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for;
- c) To authorise the utilisation of projected savings in one vote towards spending under another vote;
- d) To 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 rollovers when the annual budget for the current year was approved by the Council;
- e) To correct any errors in the annual budget.

The Municipal Budget and Reporting Regulations stipulate that adjustments budget may be tabled in the municipal Council during a financial year.

In line with the MFMA and the Municipal Budget and Reporting Regulations, the 2019/20 approved Budget has been adjusted. The adjustment has been mainly necessitated as a result of the following:

- The need to adjust revenue and expenditure estimates, in line with revenue collection levels.
- The need to authorise the spending of unspent funds at the end of the 2019/20 financial year.
- The need to authorise the utilisation of projected savings in one vote towards spending under another vote.
- The need to appropriate additional revenues that became available over and above those anticipated in the approved 2019/20 Budget.

FOCUS OF THE 2019/2020 ADJUSTMENT BUDGET

The purpose of this adjustment budget is to: -

- Adjust revenues upwards by R536 thousand because of the additional allocation as received;
- Adjust operating expenditure upwards because of COVID-19 related expenditures incurred;
- Year-end authorization of projected savings in one vote towards over expenditure in another vote.

1.2 Council Resolutions

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the Adjusted Budget of Mhlontlo Municipality for the financial year 2019/2020; and indicative allocations for the two projected outer years 2020/2021 and 2021/22; and the multi-year and single year capital appropriations are approved as set-out in the following tables:
 - 1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
 - 1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
 - 1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
 - 1.4. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are adopted as set-out in the following tables:
 - 2.1. Budgeted Financial Position;
 - 2.2. Budgeted Cash Flows;
 - 2.3. Cash backed reserves and accumulated surplus reconciliation;
 - 2.4. Asset management; and
 - 2.5. Basic service delivery measurement.
3. That in terms of section 24(2)(c)(iii) of the Municipal Finance Management Act, 56 of 2003, the measurable performance objectives for capital and operating expenditure by vote for each year of the medium term revenue and expenditure framework as set out in Supporting Table SB4 are approved.
4. That the final documents be available for inspection and comments at the following places:
Qumbu Municipal office and Tsolo Municipal Office

1.3 Executive Summary

The Municipal Manager, in conjunction with the Directors determined that an adjustment budget is required to address the short comings within the existing budget in terms of Section 72(3) of MFMA.

The budget office conducted planning and enquiry meetings with individual departments where the needs of each section were discussed in relation to their approved SDBIPs, with the budget principles and approach to be applied.

Revised figures were then presented to finalize the adjustment budget taking into consideration the needs of all departments and not in isolation with the cash flow situation of the municipality.

The criteria utilized for compiling the adjustment budget were determined by the following factors:

- The Adjustment Budget must be compiled in compliance with the MFMA requirements as set out in Section 28(1-7) as specify in the body of the report. This relates to expenditure and income estimate deviations which have been anticipated in the IDP but which have not materialized for motivated reasons. It can also relate to unforeseen circumstances which can also be explained and motivated;
- The adjustment must be substantiated through alignment with the departmental SDBIP and Council's approved IDP;
- The original approved budget process and guidelines must be used to compile the 2018/2019 adjustment budget and it was emphasised that it is not a new budget;
- Departments were required to reprioritize within their approved operating and capital budget allocations in accordance with guidelines provided by Budget and treasury office, exception was provided where there is additional funding.

Table 1 Consolidated Overview of the 2019/2020 MTREF

R thousand	Original Budget 2019/20	Adjustment Budget 28 February 2020	Adjustment Budget 15 June 2020	Variance
Total Operating Revenue	217 945 391	217 656 065	218 192 065	536 000
Total Operating Expenditure	341 393 706	314 185 318	314 721 318	536 000
(Surplus/Deficit for the year)	(123 448 315)	(96 529 253)	(96 529 253)	-
Total Capital Expenditure	68 198 489	103 861 064	103 861 064	-

Description	Budget Year 2019/20									Budget Year +1 2020/21	Budget Year +2 2021/22
	Original Budget	Prior Adjusted	Accum. Funds	Multi- year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands	A	1 A1	2 B	3 C	4 D	5 E	6 F	7 G	8 H		
Financial Performance											
Property rates	16 601	-	-	-	-	-	20	20	16 621	17 497	18 442
Service charges	1 449	-	-	-	-	-	294	294	1 743	1 527	1 610
Investment revenue	6 300	-	-	-	-	-	1 876	1 876	8 176	6 641	6 999
Transfers recognised - operational	188 888	-	-	-	-	536	(2 278)	(1 742)	187 146	199 088	209 839

Other own revenue	4 707	-	-	-	-	-	(201)	(201)	4 506	4 961	5 229
Total Revenue (excluding capital transfers and contributions)	217 945	-	-	-	-	536	(289)	247	218 192	229 714	242 119
Employee costs	116 101	-	-	-	-	-	(16 108)	(16 108)	99 993	122 371	128 979
Remuneration of councillors	22 176	-	-	-	-	-	(349)	(349)	21 827	23 373	24 635
Depreciation & asset impairment	115 763	-	-	-	-	-	(21 296)	(21 296)	94 467	122 014	128 603
Finance charges	-	-	-	-	-	-	-	-	-	-	-
Materials and bulk purchases	5 729	-	-	-	-	-	(257)	(257)	5 472	6 038	6 364
Transfers and grants	2 283	-	-	-	536	-	730	1 266	3 549	2 406	2 536
Other expenditure	79 343	-	-	-	-	-	10 071	10 071	89 413	83 627	88 143
Total Expenditure	341 394	-	-	-	536	-	(27 208)	(26 672)	314 721	359 829	379 260
Surplus/(Deficit)	(123 448)	-	-	-	(536)	536	26 919	26 919	(96 529)	(130 115)	(137 141)
Transfers recognised - capital	66 758	-	-	-	-	-	565	565	67 323	70 363	74 163
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	(56 690)	-	-	-	(536)	536	27 484	27 484	(29 206)	(59 752)	(62 978)
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-	-
Surplus/ (Deficit) for the year	(56 690)	-	-	-	(536)	536	27 484	27 484	(29 206)	(59 752)	(62 978)
Capital expenditure & funds sources											
Capital expenditure	68 198	-	-	-	-	-	35 308	35 308	103 506	71 881	75 763
Transfers recognised - capital	48 684	-	-	-	-	-	15 311	15 311	63 996	51 313	54 084
Borrowing	-	-	-	-	-	-	-	-	-	-	-
Internally generated funds	14 764	-	-	-	-	-	24 747	24 747	39 511	11 029	11 625
Total sources of capital funds	63 448	-	-	-	-	-	40 058	40 058	103 506	62 343	65 709
Financial position											
Total current assets	99 832	-	-	-	-	-	(37 111)	(37 111)	62 721	128 938	135 900
Total non current assets	578 726	-	-	-	-	-	(56 706)	(56 706)	522 020	609 978	642 916
Total current liabilities	72 477	-	-	-	-	-	(12 212)	(12 212)	60 265	76 391	80 516
Total non current liabilities	3 120	-	-	-	-	-	1 193	1 193	4 313	3 288	3 466
Community wealth/Equity	674 512	-	-	-	-	-	(132 619)	(132 619)	541 894	710 936	749 327
Cash flows											
Net cash from (used) operating	51 116	-	-	-	-	-	10 385	10 385	61 501	(4 358)	(4 593)
Net cash from (used) investing	(68 198)	-	-	-	-	-	(35 663)	(35 663)	(103 861)	(71 881)	(75 763)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-	-	-
Cash/cash equivalents at the year end	77 938	-	-	-	-	-	(26 532)	(26 532)	51 405	(176 390)	(185 916)
Cash backing/surplus reconciliation											
Cash and investments available	75 805	-	-	-	-	-	(24 400)	(24 400)	51 405	79 898	84 213
Application of cash and investments	88 691	-	-	-	-	-	(79 198)	(79 198)	9 493	80 699	85 057
Balance - surplus (shortfall)	(12 886)	-	-	-	-	-	54 798	54 798	41 912	(801)	(844)
Asset Management											
Asset register summary (WDV)	519 735	-	-	-	-	-	(52 737)	(52 737)	466 998	547 801	577 382
Depreciation & asset impairment	115 763	-	-	-	-	-	(21 296)	(21 296)	94 467	122 014	128 603
Renewal and Upgrading of Existing Assets	6 000	-	-	-	-	-	31 963	31 963	37 963	(839 075)	(884 386)
Repairs and Maintenance	5 902	-	-	-	-	-	(1 328)	(1 328)	4 574	6 220	6 556

<u>Free services</u>												
Cost of Free Basic Services provided	-	-	-	-	-	-	-	-	-	-	-	-
Revenue cost of free services provided	-	-	-	-	-	-	-	-	-	-	-	-
<u>Households below minimum service level</u>												
Water:	-	-	-	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	-	-	-	-	-	-	-	-	-
Refuse:	-	-	-	-	-	-	-	-	-	-	-	-

Total operating revenue has increased from R217 million to R218 million for the 2019/2020 financial year when compared to the Original Budget because of additional funding.

Total operating expenditure for the 2019/2020 financial year has been appropriated at R314,1million compared to the original R314,7 million.

The operating deficit has not changed.

The municipality has allocated an additional R1 million on top of the R536 thousand for COVID-19 related expenditure.

1.4 Municipal manager's quality certificate

I Thando Mase, the acting Municipal Manager of Mhlontlo Local Municipality, hereby certify that the adjusted budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Name _____

Municipal manager of Mhlontlo Local Municipality (EC156)

Signature _____

Date _____