

## OFFICE OF THE MAYOR

26 February 2015

For submission to Council

### SUBMISSION OF THE ADJUSTMENT BUDGET FOR THE MTREF PERIOD

2014/15 TO 2016/17

#### **PURPOSE**

The Mayor has received the mid-year assessment of performance, and decided that an adjustment budget be prepared and submitted to council.

#### **BACKGROUND**

The budget steering committee has at their meeting on 20 February 2015 recommended that the adjustment budget be approved by Council.

The adjustment budget is tabled in the following formats:

#### **Adjustment Budget Schedule**

- Table B1 - Summary See Annexure A
- Table B2 – Financial performance standard classification See Annexure B
- Table B3 – Financial performance – by municipal vote See Annexure C

#### **Applicable legislation and policies:**

##### **MFMA Act 56 of 2003**

In terms of section 28 (1) the municipality may revise an approved annual budget through an adjustment budget.

Furthermore in terms of section 2.8. (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.
- b) May 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) May, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality; may authorize the utilization of projected savings in one vote towards spending under another vote.
- d) May authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council.
- e) May correct any errors in the annual budget.
- f) May provide for any other expenditure within a prescribed framework.
- g) An adjustments budget must be in a prescribed form.
- h) Only the mayor may table an adjustments budget in the municipal council; but an adjustments budget in terms of subsection (2) (b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.
- i) When an adjustments budget is tabled, it must be accompanied by:
  - o An explanation how the adjustments budget affects the annual budget; - a motivation of Any material changes to the annual budget;
  - o An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years;
  - o Any other supporting documentation that may be prescribed.
- j) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- k) Section 22(b), 23(3) and 24(3) apply in respect of an adjustments budget and in such application a reference in those sections to an annual budget must be read as a reference to an adjustment budget.

**“unauthorised expenditure”**, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality’s approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act;

### **Mid-year budget and performance assessment**

72. (1) The accounting officer of a municipality must by 25 January of each year—

- (a) assess the performance of the municipality during the first half of the financial year, taking into account—
  - (i) the monthly statements referred to in section 71 for the first half of the financial year;
  - (ii) the municipality’s service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;

(iii) the past year's annual report, and progress on resolving problems identified in the annual report; and

(iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and

(b) submit a report on such assessment to—

(i) the mayor of the municipality;

(ii) the National Treasury; and

(iii) the relevant provincial treasury.

### **Municipal Budget Circular for the 2014/15 MTREF**

This circular provides further guidance to municipalities and municipal entities for the preparation of their 2014/15 Budgets and Medium Term Revenue and Expenditure Framework (MTREF). It must be read together with MFMA Circulars No. 48, 51, 54, 55, 58 and 59.

## DISCUSSION – PREPARATION AND OTHER DETAILS:

### Executive summary

Description	Current gear 2014/15		
	Original Budget	Adjusted budget	Movement
<b>FINANCIAL PERFORMANCE</b>			
<b>Revenue from Non-exchange Transactions</b>			
Property Rates	(13,970,531)	(13,970,531)	-
Fines	(3,000,000)	(3,000,000)	-
Licences and Permits	(100)	(2,759)	2,659
Government Grants and Subsidies Received	(124,850,000)	(114,850,000)	(10,000,000)
<b>Revenue from Exchange Transactions</b>			
Service Charges	(47,940,328)	(52,819,266)	4,878,938
Rental of Facilities and Equipment	(602,314)	(603,598)	1,284
Interest Earned - External Investments	(6,631)	(6,631)	-
Interest Earned - Outstanding Debtors	(615,771)	(615,771)	-
Dividends Received	(9,947)	(19,378)	9,431
Other Income	(6,478,367)	(6,981,684)	503,317
Profit on Sale of Livestock	(50,000)	(50,000)	-
<b>Total Revenue</b>	<b>(197,523,989)</b>	<b>(192,919,618)</b>	<b>(4,604,371)</b>
<b>Expenditure</b>			
Employee Related Costs	50,933,036	53,565,560	(2,632,524)
Remuneration of Councillors	3,183,481	3,066,736	116,745
Depreciation and Amortisation	28,427,184	28,607,969	(180,785)
Repairs and Maintenance	8,869,837	4,099,836	4,770,001
Finance Costs	2,270,000	2,216,000	54,000
Bulk Purchases	18,000,000	18,000,000	-
General Expenses	36,167,981	41,512,812	(5,344,831)
Capital Expenditures	77,218,212	67,217,435	10,000,777
Free Basic Services	5,763,131	4,963,461	799,670
<b>Total Expenditure</b>	<b>230,832,863</b>	<b>223,249,809</b>	<b>7,583,054</b>
<b>(Surplus)/Deficit</b>	<b>33,308,874</b>	<b>30,330,191</b>	<b>2,978,683</b>
Less: Non- Cash Items	(33,335,760)	(30,357,969)	(2,977,791)
Depreciation	(31,585,760)	(28,607,969)	(2,977,791)
Provisions	(1,750,000)	(1,750,000)	-
<b>Surplus/(Deficit for the Year</b>	<b>(26,886)</b>	<b>(27,778)</b>	<b>892</b>

## Expected expenditure.

### General comments:

An overall reduction in expenditures of 15% is implemented on all other items not specifically discussed in the information below.

### Salaries

The adjusted salary budget is as follows:

	Current year 2014/15			2015/16 Medium Term Revenue and Expenditure		
	Original Budget	Adjusted Budget	Full year forecast	Budget year 2015/16	Budget year +1 2016/17	Budget year +2 2017/18
Salaries;	33,564,221.81	35,433,979.84	35,433,979.84	35,880,153.11	38,355,883.68	41,002,439.65
Performance Bonus;	567,708.96	-	-	606,880.88	648,755.66	693,519.80
Annual Bonus;	2,303,356.56	2,338,546.57	2,338,546.57	2,462,288.16	2,632,186.04	2,813,806.88
Allowance - Telephone;	54,384.25	43,300.00	43,300.00	58,136.76	62,148.20	66,436.43
Allowance Standby;	369,950.26	420,281.00	420,281.00	395,476.83	422,764.73	451,935.49
Housing Subsidy;	72,177.15	35,494.38	35,494.38	77,157.38	82,481.24	88,172.44
Overtime;	2,366,327.73	2,758,935.78	2,758,935.78	2,083,528.10	2,226,887.24	2,380,542.45
Allowance - Other;	100,997.78	101,246.89	101,246.89	107,966.62	115,416.32	123,380.05
Temporary Workers;	249,542.66	249,542.66	249,542.66	266,761.10	285,167.62	304,844.18
Allowance - Vehicle;	1,825,326.30	2,060,864.00	2,060,864.00	1,951,273.81	2,085,911.71	2,229,839.61
Industrial Council Levy;	24,571.43	23,129.46	23,129.46	26,266.86	28,079.27	30,016.74
Skills Development Levy;	409,173.09	450,495.74	450,495.74	437,406.03	467,587.05	499,850.55
Compensation Commission	-	-	-	-	-	-
Ward Allowances;	353,144.48	330,000.00	330,000.00	377,511.45	403,559.74	431,405.36
Medical Aid Fund;	2,117,140.24	2,491,994.46	2,491,994.46	2,263,222.91	2,419,385.29	2,586,322.88
Pension Fund;	6,205,881.27	6,453,563.58	6,453,563.58	6,634,087.07	7,091,839.08	7,581,175.98
UIF;	349,132.10	374,185.34	374,185.34	373,222.21	398,974.55	426,503.79
Medical - PJS Vorster;Admin	-	-	-	-	-	-
Councillors - Allowance;	2,109,179.01	1,917,919.66	1,917,919.66	2,254,712.36	2,410,287.51	2,576,597.35
Councillors - Telephone Allo	160,991.16	229,548.00	229,548.00	172,099.55	183,974.42	196,668.65
Councillors - Travel Allowan	449,074.94	407,702.76	407,702.76	480,061.11	513,185.33	548,595.11
Councillors - SDL;	28,659.14	28,714.90	28,714.90	30,636.62	32,750.55	35,010.34
Councillors - Medical Aid;	70,697.98	147,981.86	147,981.86	75,576.14	80,790.90	86,365.47
Councillors - Pension Fund;	195,735.71	183,753.48	183,753.48	209,241.48	223,679.14	239,113.00
Councillors - Housing Allowa	169,143.06	151,115.04	151,115.04	180,813.93	193,290.09	206,627.11
	54,116,517.06	56,632,295.40	56,632,295.40	57,404,480.49	61,364,985.34	65,599,169.32

- The budget for salaries has increased with 4.65% from the original budgeted amount.
- Main reasons for the increase in the budget relates to the overspending of budget in respect of overtime paid. With several matters relating to service delivery, (especially water problems) workers in the Technical Department had to work overtime to ensure that the Municipality adheres to its vision of quality service delivery.
- Provision is made for all employees as at 28 February 2015.
- The ratio of employee related costs to operating income stands at 69.89% (2013/14: 81%). This ratio is calculated taking into consideration Electricity sales as allocated to Mohokare Local Municipality through the consolidated budget received from Centlec.
- When the amount relating to Electricity sales are excluded the percentage increases to 100.3% (2013/14: 110%).

## Repairs and Maintenance

The adjusted repairs & maintenance budget is as follows:

	Current year 2014/15			2015/16 Medium Term Revenue and Expenditure		
	Original Budget	Adjusted Budget	Full year forecast	Budget year 2015/16	Budget year +1 2016/17	Budget year +2 2017/18
R/M - Caravan Park;Community	-	-	-	-	-	-
R/M - Buildings;Rouxville Un	2,504,295.00	167,564.11	167,564.11	2,652,048.41	2,797,911.07	2,937,806.62
R/M - Tools & Equipment;	232,812.00	197,890.20	197,890.20	246,547.91	260,108.04	273,113.45
R/M - Furniture & Equipment;	90,000.00	76,500.00	76,500.00	95,310.00	100,552.05	105,579.65
R/M - Fencing;Rouxville Unit	18,180.00	17,226.39	17,226.39	19,252.62	20,311.51	21,327.09
R/M - Sport Fields;Sport Gro	181,800.00	-	-	192,526.20	203,115.14	213,270.90
R/M - Stormwater;	-	9,120.00	9,120.00	-	-	-
R/M - Roads & Streets;Rouxvi	268,000.00	266,800.00	266,800.00	283,812.00	299,421.66	314,392.74
R/M - Vehicles & Equipment;R	1,508,400.00	1,201,212.95	1,201,212.95	1,597,395.60	1,685,252.36	1,769,514.98
R/M - Water Reticulation;	300,000.00	600,000.00	600,000.00	317,700.00	335,173.50	351,932.18
R/M - Dumping Site;	-	-	-	-	-	-
R/M - Traffic & Road Signs;	90,900.00	77,265.00	77,265.00	96,263.10	101,557.57	106,635.45
R/M - Sewerage;	-	-	-	-	-	-
R/M - General ;Parks	-	-	-	-	-	-
R/M - Street Lights;	1,500,000.00	58,240.10	58,240.10	1,650,000.00	1,815,000.00	1,905,750.00
R/M - Plant & Equipment;	450,450.00	983,432.50	983,432.50	477,026.55	503,263.01	528,426.16
R/M - Network;	1,500,000.00	295,566.10	295,566.10	1,650,000.00	1,815,000.00	1,905,750.00
R/M - Meters;	-	36,519.10	36,519.10	-	-	-
R/M - Grounds/Gardens;	-	-	-	-	-	-
R/M - Website;Administration	225,000.00	112,500.00	112,500.00	238,275.00	251,380.13	263,949.13
	8,869,837.00	4,099,836.45	4,099,836.45	9,516,157.38	10,188,046.04	10,697,448.34

- Repairs and Maintenance expenditures was drastically reduced due to cash flow constraints.
- The main reasons for the cash flow constraints are set out below:
  - o The under-collection of municipal services. The collection rate currently reflects a 45% collection of amounts billed for municipal services.
  - o The disallowed roll-over of MIG funds leading to the withholding of Mohokare Local Municipality's equitable share for the 2014/15 financial year of R5 million (2013/14: R7,7 million)
  - o A VAT dispute currently underway with SARS where SARS claims that the municipality owes SARS VAT to the amount of R52 million. Through our inspection of the little documents made available to us, we could determine that all input VAT claimed has been written back and for the periods under review and adjustments to our output VAT declared has also been made. We are currently following up on this matter and are in regular contact with an employee of the South African Revenue Services. Due to the ongoing dispute, none of our VAT claims are being paid out as it is offset against the assessed amount until the matter is resolved. For the current financial year (July 2014 – November 2014) it already amounts to R3, 1 million.

## Operational & Capital Grants with Capital Expenditures

The adjusted grants budget is as follows:

	Current year 2014/15			2015/16 Medium Term Revenue and Expenditure	
	Original budget	Adjusted budget	Full gear forecast	Budget year 2015/16	Budget year +1 2016/17
<i>Operational Grants</i>					
NT Grant - Equitable Share;	-52,966,000.00	-47,966,000.00	-47,966,000.00	-54,825,000.00	-53,784,000.00
NT Grant - MFMA; Finance	-1,800,000.00	-1,800,000.00	-1,800,000.00	-1,950,000.00	-2,100,000.00
NT Grant - MSIG; Administrati	-934,000.00	-934,000.00	-934,000.00	-967,000.00	-1,018,000.00
NT Grant - EPWP;	-1,033,000.00	-1,033,000.00	-1,033,000.00	-	-
Training - SETA;	-150,000.00	-150,000.00	-150,000.00	-158,850.00	-167,586.75
Prov Gov - Man Remuneration;	-2,775,000.00	-2,775,000.00	-2,775,000.00	-2,220,000.00	-2,220,000.00
	<b>-59,658,000.00</b>	<b>-54,658,000.00</b>	<b>-54,658,000.00</b>	<b>-60,120,850.00</b>	<b>-59,289,586.75</b>
<i>Capital Grants</i>					
NT Grant - MIG;	-17,462,000.00	-17,462,000.00	-17,462,000.00	-18,009,000.00	-18,637,000.00
NT Grant - MwIG;	-7,730,000.00	-7,730,000.00	-7,730,000.00	-5,000,000.00	-5,265,000.00
Regional Bulk Infra Grant;	-40,000,000.00	-35,000,000.00	-35,000,000.00	-63,000,000.00	-
NT Grant - INEPG;	-	-	-	-5,000,000.00	-5,000,000.00
	<b>-65,192,000.00</b>	<b>-60,192,000.00</b>	<b>-60,192,000.00</b>	<b>-91,009,000.00</b>	<b>-28,902,000.00</b>
<i>Capital expenditure (Grants)</i>					
MIG Projects;	16,588,900.00	17,055,996.49	17,055,996.49	17,108,550.00	17,705,150.00
MwIG Projects;	7,730,000.00	7,730,000.00	7,730,000.00	5,000,000.00	5,265,000.00
Regional Bulk Infra Projects	40,000,000.00	35,000,000.00	35,000,000.00	63,000,000.00	-
INEPG Projects;	-	-	-	5,000,000.00	5,000,000.00
	<b>64,318,900.00</b>	<b>59,785,996.49</b>	<b>59,785,996.49</b>	<b>90,108,550.00</b>	<b>27,970,150.00</b>
<i>Capital expenditure (own funds)</i>					
CCA - Infrastructure;	909,000.00	-	-	-	-
CCA - Tools & Equipment;	1,408,981.50	1,393,961.28	1,393,961.28	1,420,628.91	1,498,763.50
CCA - Vehicles, Plant & Equi	4,926,150.00	385,560.00	385,560.00	2,871,888.40	2,974,842.26
CCA - Furniture & Office Equ	279,657.00	29,859.06	29,859.06	296,156.76	312,445.38
CCA - Town Hall & Ward Off;	-	-	-	-	-
CCA - Community Halls;	-	-	-	-	-
CCA - IT	593,023.50	828,517.71	828,517.71	250,000.00	250,000.00
	<b>8,116,812.00</b>	<b>2,637,898.05</b>	<b>2,637,898.05</b>	<b>4,838,674.07</b>	<b>5,036,051.15</b>

- A decrease in the equitable share grant of R5 million is reflected due to funds withheld from Treasury.
- Treasury has communicated a reduction in the Regional bulk infrastructure grant from R40 million to R35 million.
- The budget for capital expenditure funded by own funds have been drastically reduced due to the severe cash flow constraints within Mohokare Local Municipality. The budget has mainly been adjusted to cover capital expenditure funded by own funds which has already been entered into during the first six months of the financial year as well as additional amounts for the last six months of the financial year to ensure that service delivery will not be hampered by the budget cuts.
- The increase in the budget allocated to Information Technology's capital expenditure is a result of the acquisition of a new server, the upgrade of the server room to comply to

regulations and the purchase of necessary hardware and software (such as anti-virus) for Mohokare Local Municipality to be able to perform our duties

#### Calculation of the bad debts provision:

- The under-collection in respect of municipal services resulted in an 88% increase in respect of bad-debts from R9.5 million to R17.9 million. This calculation of this increase in the provision for bad debts was informed by the following information:
  - o We calculated the total revenue billed per type (e.g. water, rates, refuse, etc.) for the six month period 01 July 2014 – 31 December 2014.
  - o For the same period, we calculated the total income received from debtors as well as the amount to be written off relating to indigent debtors.
  - o For each type of revenue a collection rate was calculated. (The overall average collection rate at 31 December 2015 sits at 45%).
  - o Informed by this information the amount to be provided for as bad debts was calculated.
  - o We included 52% of the above calculated amount in the adjustment budget as our provision for bad debts. The reason for this is the fact that Smart Metro has been appointed to assist the municipality with revenue enhancement and all debtors with arrear accounts of over 90 days are handed over on a regular basis. Furthermore, we also took into account that the adjustment budget is a public document. If we increase the provision for bad debts drastically it will seem as if Council condones the culture of non-payment for municipal services which is currently the case in Mohokare Local Municipality.

#### **Proposals for the eliminating of non-priority spending at Mohokare Local Municipality**

The following critical examples of non-priority expenditure have been observed and we wish to bring these proposals for a reduction of unnecessary expenditure to the attention of Council:

- a) Excessive expenditure on subsistence and travelling for employees. A recommendation is made to Council to consider implementing a flat rate payout per night (R500-00) for employees who are out of the office for official purposes. This amount are to be paid directly to the respective employee upfront and he/she is then also responsible for his/her own accommodation reservations and the payment thereof. This will further lighten the burden which currently lies on the Supply Chain Management Unit. SCM will however still be available to attend to all accommodation reservations for Councilors.
- b) We propose a limitation to be placed on the amount of non-compulsory forums, workshops, trainings and meetings that an employee can attend to per month/per quarter to further limit subsistence and travelling expenses. A circular to be issued to all employees indicating that only meetings, forums etc. approved by the Municipal Manager may be attended. If no approval was obtained beforehand, the S&T claim will not be processed.
- c) No catering/entertainment expenses (e.g. lunches during meetings etc.) should be approved



by the Chief Finance Officer. In exceptional cases, these types of expenses will be approved by the Mayor or the Municipal Manager. This measurement has also been implemented by Provincial Treasury and at meetings only coffee/tea is available for delegates.

- d) No requisitions for the purchase of heaters should be approved. Through inspection of Mohokare's updated movable asset register it has been determined that there are more than 100 heaters on the register.
- e) No new office furnishings should be acquired to assist the Municipality in curbing capital expenditure.
- f) Cellphones provided to Councilors and employees for which their cell phone allowance is deducted from their salaries each month should be blocked at the amount equal to the respective cellphone allowance. Should there be any over-expenditure the money are to be deducted from their salaries.

Further observations where unnecessary spending can take place include the following:

- a) excessive sponsorship of music festivals, beauty pageants and sporting events, including the purchase of tickets to events for Councilors and/or officials;
- b) public relations projects and activities that are not centered on actual service delivery or are not a municipal function (e.g. celebrations; gala dinners; commemorations, advertising and voter education);
- c) LED projects that serve the narrow interests of only a small number of beneficiaries or fall within the mandates of other government departments such as the Department of Agriculture;
- d) excessive catering for meetings and other events, including the use of public funds to buy alcoholic beverages;
- e) arranging workshops and events at expensive private venues, especially ones outside the municipality (as opposed to using the municipality's own venues);
- f) excessive printing costs (instead of maximizing the use of the municipality's website, including providing facilities for the public to access the website);
- g) foreign travel by mayors, Councilors and officials, particularly 'study tours';
- h) excessive Councilor and staff perks such as luxurious mayoral cars and houses, notebooks, IPADS and cell-phone allowances; travel and subsistence allowances. Municipalities are reminded that in terms of section 7 (1) of the Remuneration of Public Office-bearers Act, 1998 (Act No.20 of 1998) the Minister for Cooperative Governance and Traditional Affairs must determine the limit of salaries and allowances of the different members of municipal councils and any budget provision may not be outside this framework;
- i) excessive staff in the office of the mayor – particularly the appointment of political 'advisors' and 'spokespersons';
- j) all donations to individuals that are not made in terms of the municipality's indigent policy or a bursary scheme; for instance donations to cover funeral costs (other than pauper burials which is a district municipality function);
- k) costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or 'golden handshakes'; and
- l) the use of consultants to perform routine management tasks, and the payment of excessive fees to consultants.

In order to address the causes of the over expenditure during the first 6 months, as well as the delay in the availability of financial information, the budget & steering committee recommended that the matters arising from the discussions of the adjustment be form part of this agenda.

### **FINANCIAL IMPLICATIONS**

Should Treasury find that the reporting received from Mohokare Local Municipality is not up to standard, they could withhold Equitable Share hampering the service delivery of Mohokare Local Municipality.

### **LEGAL IMPLICATIONS**

Compliance with Section 28 (1) of the Municipality Finance Management Act No, 56 of 2003

### **PARTIES CONSULTED**

The Municipal Manager, Chief Financial Officer, IDP Manager

### **RECOMMENDATION**

1. It is recommended that Council approves the adjustment budget of the municipality for the financial year 2014/15 as well as the two projected outer years 2015/16 and 2016/17 as further set out in the following annexures.
  - a. Table B1 - Summary See Annexure A
  - b. Table B2 – Financial performance standard classification See Annexure B
  - c. Table B3 – Financial performance – by municipal vote See Annexure C
2. It is recommended that the municipal manager implement the matters arising out of the discussions of the Budget Steering Committee held on 20 February 2015
3. It is recommended that Council approves the proposed cost saving measures with immediate effect.

### **COMPILED BY:**

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**A.M SHASHA**  
**MAYOR/SPEAKER**

