

MAPHUMULO MUNICIPALITY



NARRATIVE REPORT ADJUSTMENT BUDGET 2019-20

TABLE OF CONTENTS

PART 1

1.1 Purpose.....	3
1.2 Background.....	3
1.3 Mayor’s Report.....	3
1.4 Executive Summary.....	4

PART 2

2.1 Adjustments to Budget Assumptions.....	6
2.2 Adjustments to Budget Funding.....	6
2.3 Adjustments to operating income and expenditure.....	6
2.4 Adjustment to Capital Funding and Expenditure.....	9
2.5 Cash flow activities.....	11
2.6 Adjustments to Service Delivery and Budget implementation Plan.....	13
2.7 Effect of the Adjustment Budget on provision of basic services.....	13
2.8 Strategic and Legal Implications.....	13
2.9 Measurable Performance Objectives and Indicators	13
2.10 Adjustment Budget Tables (B1 to B10).....	13
2.11 Consultations.....	14
3 Resolutions / Recommendations.....	14

PART 1

1.1 PURPOSE

To recommend to council approval of 2019/20 adjustment budget in terms of section 28 (2) (b), (e) and (f) of the Municipal Finance Management Act of 2003.

1.2 BACKGROUND

Section 16 (1) of the MFMA requires that the Council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. On 30 May 2019, Council approved the Annual Budget for the financial year 2019/20. The approved 2019/20 annual budget and its supporting documentation was submitted to National and Provincial Treasury as required by section 22(b) (i) of the MFMA.

The adjustment budget is prepared in terms of Section 28 (2) (b), (e) and (f) of the MFMA which state that an adjustment Budget:

- (2) (b) May appropriate additional revenues that have become available over and above those anticipated in the annual budget in order to accelerate spending programmes already budgeted for;
- (2) (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 the projected roll-overs when the annual budget for the current year was approved by the council;
- (2) (f) May correct any errors in the annual budget.

As per the requirements of section 28 (2) (b) and (e) of the MFMA the, corrections have been made in the approved budget, these include both corrections as indicated by Provincial Treasury as well as those identified by the municipality on reviewing and preparing this adjustments budget.

1.3 MAYOR'S REPORT

The Adjustment Budget is presented based section 28 of the MFMA which state that municipality may revise an approved annual budget through the adjustment budget. In the preparation of this adjustment budget we made sure that basic service delivery is not compromised and we also ensured compliance with the section 28 (4) – (5) of the MFMA. The strategic priorities for the Maphumulo Local Municipality are set out in the integrated Development Plan (IDP), which was reviewed for the 2019/20 financial year and will be revised every year as prescribed by legislation. This adjustment budget is in line with our IDP.

In order to ensure continuous and sustained development and service delivery within the municipal area, Maphumulo Municipality identified programs and projects that constituted the municipalities focus areas during the year under review. These

programs and projects fall under the national key performance areas for local government. The integration of these programs and projects was pursued during this planning and alignment cycle.

The adjustment budget is prepared in terms of Section 28(2) of the MFMA which states that an Adjustment Budget:

- Revises the approved annual budget by adjusting revenue and expenditure estimates downwards if there's material under-collection of revenue during the current year
- May appropriate additional revenues that have become available over and above those anticipated in the annual budget in order to accelerate spending programmes already budget for.
- May within a prescribed framework authorise unforeseeable and unavoidable expenditure recommended by the Mayor of the Municipality
- May authorise the utilisation of projected savings in one vote towards spending under another vote.
- May authorise the spending of unspent funds at the end of the past financial year where under-spending could not have been reasonably foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the Council of the Municipality.
- May correct errors in the annual budget and
- May provide for any other expenditure within a prescribed framework

The Municipality adopted a Vision and Mission that will provide direction for the municipality. Under my leadership and that of the Municipal Manager, Mr PN Mhlongo and the Executive Committee, much progress has been made to accelerate service delivery in the municipal area. In this context, it is recommended that Council considers and approves the adjustment budget.

1.4 EXECUTIVE SUMMARY

In preparing this Adjustment Budget we considered Section 28 of MFMA which states that the municipality may revise an approved annual budget through an adjustment budget. In terms of section 28 (4) of the MFMA, the Mayor of the Municipality must table an adjustment budget in the municipal Council accompanied by explanations on how the adjustment budget affects the annual budget, provide supporting documentation and motivates for any material changes to the annual budget. Paragraph (6) of that section however, forbids the Mayor to adjust tariffs and taxes except where required in terms of a financial recovery plan.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2019/20 Adjustment Budget Revenue and Expenditure Framework:

(A) . Operating Expenditure Framework:

Description	Current Year 2019/20			Indicative Years	
	Original Budget	Adjustment	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22
Thousand	R'000	R'000	R'000	R'000	R'000
Total Revenue (excluding capital transfers and contributions)	122 328	(1 875)	120 454	127 728	252 606
Total Expenditure	117 330	12 936	131 261	117 767	124 735
Surplus/(Deficit)	4 998	(14 810)	(10 807)	9 971	127 596
capital transfers & contributions	33 820	5 577	39 397	23 365	24 869

(B). Capital Expenditure Framework:

Description	Current Year 2019/20			Indicative Years	
	Original Budget	Adjustment	Adjusted Budget	Budget Year 2020/21	Budget Year 2021/22
Thousand	R'000	R'000	R'000	R'000	R'000
Capital Expenditure	47 314	(1 788)	45 526	23 565	25 069
Transfers recognised – capital	22 320	5 577	27 897	23 465	24 969
Internally generated funds	13 494	(7 624)	5 869	100	100
Total Capital Funded	47 314	(1 788)	45 526	23 565	25 069

PART 2

2.1 ADJUSTMENTS TO BUDGET ASSUMPTIONS

IDP informs the budget. When the original budget was compiled various public meetings were held and input was gained from these meetings to compile the IDP. Strategic workshops were held with political stakeholders to identify needs in the various wards that would be included in the IDP. These needs were prioritized and are still part of the Adjustment Budget for 2019/20.

The budget assumptions as per the original approved budget are still applicable on this adjustments budget.

2.2 ADJUSTMENTS TO BUDGET FUNDING

Income is mainly made up of Grants, property rates, rental of facilities, interest and other income (e.g. sale of tender documents and hall hiring). These income projections are based on a billing charges except the interest earned from investment and other Income account which is based on cash bases.

Council must note that National Treasury haven't released 2020 adjusted Division of Revenue Bill (DoRB). This means that we may have to have a Special Adjustment Budget to align our budget with the adjusted DoRB.

The total operating income as per the original approved budget is R122.3 million, it has been adjusted downward to R120.5 million. This reduction of total income results from the decrease in property rates (R1.9 million), refuse revenue (R44 000), Interest earned external investments (R520 000) and also an increase in license and permits R45 000, interest earned outstanding debtors R40 000, other revenue R153 000 and operational transfers and subsidies increased by R344 000.

2.3 ADJUSTMENTS TO OPERATING INCOME AND EXPENDITURE

2.3.1 OPERATING INCOME

Table B4 shows the following:

Property Rates

The original approved budget for Property rates is R20.9 million, adjusted budget is R19 million. Therefore property rate is adjusted downward by R1.9 million, this adjustment is based on actual revenue billed from July to December 2019 and projected revenue for the next six months (R16.6 million plus R2.4 million).

Rental of Facilities and Equipment

Rental of facilities and Equipment comprises of hall hire fees and rentals debtors. Hall hire fee is on cash bases and Rental debtors is based on billings. The rental of facilities and equipment as per the original approved budget is R1.1 million. The actual billings from rental debtors was extrapolated and no adjustment made for rental debtors and hall hire.

Refuse Revenue

The original budget for refuse revenue is R200 000, this account adjusted downward to R156 000 this adjustment is based on the billings from July 2019 to December 2019 and anticipated billings for the next six months.

License and Permit

The original budget for license revenue is R70 000. This budget is adjusted upward by R45 000, this is due to the collections as at the end of December 2019.

Interest Earned External Investments

Interest earned on external investments as per the original approved budget is R2.3 million and is adjusted down to R1.7 million

Interest earned - outstanding debtors

Interest earned on outstanding debtors as per the original approved budget is R1.3 million and adjusted to R1.4 million.

Transfer receipts – operational

Budgeted operational grant was based on the Division of Revenue bill (DoRB) issued by Treasury in March 2019 and also approved 2019 roll overs. The original budget is R96.2 million, this budget adjusted upwards by R344 000 which is made of library grant 2020 adjustment provincial gazette and approved roll over.

Other Revenue

Other revenue account is on cash bases. Included in other revenue account are tender document sales and other income. Other revenue as per the original approved budget is R351 000 adjusted upward to R504 000.

2.3.2 OPERATING EXPENSES

Employee Related Cost

Employee related costs as per the original approved budget is R41.8 million employee related cost is adjusted upward to R44.9 million, this adjustment is based on the actual expenditure paid to employees between July and December 2019 and the prognostication for the next six months.

Remuneration of Councillors

Remuneration for Councillors as per the original approved budget is R9 million, there is no adjustment on this category since we have not received councillors upper limits.

Debt Impairment

Debts impairment consist of consumer and rental debtors. Debtors are tested for debt impairment annually. The original budget for debt impairment is R997 000. This budget is adjusted down to R254 000, this adjustment is based on that, the management has proposed to write-off R14.7 million of outstanding debtors.

Depreciation and Assets Impairment

The original budget for depreciation and asset impairment is R11.9 million and this has been adjusted to R13.9 million. This adjusted budget is based on the depreciation calculated as per audited 2019 assets register and 2020 estimated acquisitions.

Calculation is as follows:

Depreciation & asset impairment	2020 Original Budget	2020 Adjusted budget
Depreciation: Computer	294 689.60	506 561.54
Amortisation: Computer software	196 311.23	179 863.29
Depreciation: Land & Buildings	3 386 117.38	3 293 110.59
Depreciation: Furniture and Fittings	700 752.09	371 590.19
Depreciation: Office Equipment	140 000.00	460 850.00
Depreciation: Roads	4 719 985.29	5 501 180.06
Depreciation: vehicles	999 775.95	1 164 620.73
Depreciation : Machinery	1 104 541.70	1 782 121.70
Depreciation : Investment Property	383 570.19	623 549.05
	11 925 743.42	13 883 452.31

Contracted services

Contracted services as per the original approved budget is R28.6 million, Contracted services adjusted upward to R32.3 million.

Here is contracted services breakdown:

CONTRACTED SERVICES ITEMS	2019-20 ADJB
Expenditure:Contracted Services:Contractors:Fire Services	5 000.00
Expenditure:Contracted Services:Contractors:Artists and Performers	6 000.00
Expenditure:Contracted Services:Contractors:Interior Decorator	20 000.00
Expenditure:Contracted Services:Contractors:Audio-visual Services	24 500.00
Expenditure:Contracted Services:Outsourced Services:Transport Services	39 539.00
Expenditure:Contracted Services:Contractors:Stage and Sound Crew	44 020.00
Expenditure:Contracted Services:Contractors:Exhibit Installations	50 000.00
Expenditure:Contracted Services:Contractors:Sports and Recreation	70 000.00
Expenditure:Contracted Services:Contractors:Fire Protection	97 609.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Project Management	100 000.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Valuer and Assessors	122 000.00
Expenditure:Contracted Services:Outsourced Services:Drivers Licence Cards	135 000.00
Expenditure:Contracted Services:Outsourced Services:Business and Advisory:Accounting and Auditing	172 174.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Audit Committee	200 000.00
Expenditure:Contracted Services:Contractors:Graphic Designers	223 150.00
Expenditure:Contracted Services:Outsourced Services:Professional Staff	250 000.00
Expenditure:Contracted Services:Contractors:Catering Services	445 931.00
Expenditure:Contracted Services:Contractors:Building	450 000.00
Expenditure:Contracted Services:Contractors:Transportation	461 348.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Qualification Verification	515 000.00
Expenditure:Contracted Services:Outsourced Services:Catering Services	594 325.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Human Resources	596 000.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Research and Advisory	627 740.00
Expenditure:Contracted Services:Contractors:Event Promoters	740 190.00
Expenditure:Contracted Services:Outsourced Services:Sewerage Services	935 360.00
Expenditure:Contracted Services:Outsourced Services:Administrative and Support Staff	1 126 484.00
Expenditure:Contracted Services:Consultants and Professional Services:Legal Cost:Legal Advice and Litigation	1 150 000.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Accounting and Auditing	1 200 000.00
Expenditure:Contracted Services:Outsourced Services:Business and Advisory:Business and Financial Management	1 480 000.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Business and Financial Management	1 500 000.00
Expenditure:Contracted Services:Contractors:Maintenance of Buildings and Facilities	1 998 965.00
Expenditure:Contracted Services:Contractors:Maintenance of Equipment	2 075 000.00
Expenditure:Contracted Services:Outsourced Services:Cleaning Services	2 340 404.00
Expenditure:Contracted Services:Contractors:Maintenance of Unspecified Assets	2 625 000.00
Expenditure:Contracted Services:Consultants and Professional Services:Business and Advisory:Communications	3 298 900.00
Expenditure:Contracted Services:Outsourced Services:Security Services	6 556 297.00
	32 275 936.00

Transfers and grants

Included in transfers and grants are internal funded electrification projects. The original budget is R1.1million and adjusted upward to R7.3 million.

Other Expenditure

Other expenditure as per the original approved budget is R22.7 million, and this has been adjusted downward to R22.4 million.

Here is operational expenditure breakdown

EXPENDITURE ITEMS	2019-20 ADJB
Expenditure:Operational Cost:Courier and Delivery Services	4 000.00
Expenditure:Operational Cost:Fines and Penalties:Breach of Contract	5 000.00
Expenditure:Operational Cost:Registration Fees:Professional and Regulatory Bodies	10 000.00
Expenditure:Operational Cost:Advertising, Publicity and Marketing:Tenders	14 078.00
Expenditure:Operational Cost:Workmen's Compensation Fund	35 000.00
Expenditure:Operational Cost:Toll Gate Fees	41 000.00
Expenditure:Operational Cost:Travel and Subsistence:Domestic:Transport with Operator:Public Transport:Road Transport	45 650.00
Expenditure:Operational Cost:Commission:Prepaid Electricity	46 000.00
Expenditure:Operational Cost:Bank Charges, Facility and Card Fees:Bank Accounts	50 000.00
Expenditure:Operational Cost:Advertising, Publicity and Marketing:Signs	50 000.00
Expenditure:Operational Cost:Travel and Subsistence:Domestic:Transport with Operator:Public Transport:Air Transport	54 227.00
Expenditure:Operational Cost:Commission:Third Party Vendors	60 000.00
Expenditure:Operational Cost:Drivers Licences and Permits	66 087.00
Expenditure:Operational Cost:Transport Provided as Part of Departmental Activities:Events	75 000.00
Expenditure:Operational Cost:Advertising, Publicity and Marketing:Staff Recruitment	80 000.00
Expenditure:Operational Cost:Registration Fees:Seminars, Conferences, Workshops and Events:National	80 000.00
Expenditure:Operational Cost:Travel and Subsistence:Domestic:Daily Allowance	100 000.00
Expenditure:Operational Cost:Levies Paid - Water Resource Management Charges	100 000.00
Expenditure:Operational Cost:System Access and Information Fees	120 000.00
Expenditure:Operational Cost:Advertising, Publicity and Marketing:Corporate and Municipal Activities	190 000.00
Expenditure:Operational Cost:Entertainment:Total for All Other Councillors	253 000.00
Expenditure:Operational Cost:Advertising, Publicity and Marketing:Gifts and Promotional Items	260 816.00
Expenditure:Operational Cost:Achievements and Awards	267 801.00
Expenditure:Operational Cost:Printing, Publications and Books	325 000.00
Expenditure:Operational Cost:Land Alienation Costs	400 000.00
Expenditure:Operational Cost:Hire Charges	445 322.00
Expenditure:Operational Cost:Travel and Subsistence:Domestic:Transport without Operator:Car Rental	450 000.00
Expenditure:Operational Cost:Communication:Telephone, Fax, Telegraph and Telex	546 000.00
Expenditure:Operational Cost:Professional Bodies, Membership and Subscription	585 000.00
Expenditure:Operational Cost:Skills Development Fund Levy	605 189.00
Expenditure:Operational Cost:Bursaries (Employees)	657 000.00
Expenditure:Operational Cost:Travel and Subsistence:Domestic:Transport without Operator:Own Transport	684 599.00
Expenditure:Operational Cost:Insurance Underwriting:Premiums	902 588.00
Expenditure:Operational Cost:Uniform and Protective Clothing	944 211.00
Expenditure:Operational Cost:Licences:Licence Agency Fees	1 156 037.00
Expenditure:Operational Cost:External Audit Fees	1 200 000.00
Expenditure:Operational Cost:Entertainment:Executive Mayor	1 255 834.00
Expenditure:Operational Cost:Remuneration to Ward Committees	1 320 000.00
Expenditure:Operational Cost:Indigent Relief	1 660 143.00
Expenditure:Operational Cost:Wet Fuel	1 945 000.00
Expenditure:Operational Cost:Municipal Services	2 777 078.00
Expenditure:Operational Cost:Travel and Subsistence:Domestic:Accommodation	2 539 150.00
	49 000.00
	22 404 810.00

2.4 ADJUSTMENT TO CAPITAL FUNDING AND EXPENDITURE

2.4.1 CAPITAL EXPENDITURE BY VOTES.

Governance and administration

This budget includes all movable assets. The original budget is R2.9 and adjusted upward to R3.7 million.

Community and public safety

This budget includes all non-infrastructure community assets. The original budget is R20.4 million and adjusted downward to R17.4 million.

Economic and environmental services

This budget is mainly road Transport assets. The original budget is R24 million, this budget is increased to R24.4 million.

2.4.2 FUNDING OF THE CAPITAL PROJECTS

The initial approved budget was R47.3 million and this has been adjusted to R45.5 million. The capital funding adjustments are as follows:

National Government

Total National Government transferred capital is made of MIG of R27.9 million including 2019 roll over.

Provincial Government

Total Provincial Government transferred capital is made of R11.5 million from COGTA and R260 000 for Library grants.

Internally Generated Funds

Internally generated funds original budget was R13.5 million and adjusted down to R5.9 million.

2.5 CASH FLOW ACTIVITIES

2.5.1 RECEIPTS

Property rates, penalties & collection charges

The original budget is R12.8 million and adjusted upward by R3.2 million.

Other revenue

Other revenue includes other revenues, rental of facilities and License and permit. The original budget approved is R1.3 million adjusted upward to R1.6 million.

Government – operating

Operational grants budget in the original budget is R96.2 million and adjusted upward by R4.8 million. This adjustment is made of INEP grant and 2019 Library grant roll over.

Government – capital

Capital grants budget in the original budget is R47.3 million and adjusted to R45.5 million.

Service charges

Original budget for service charge is R0 and this has been adjusted to R110 000 based on the collection received during the first half of the year.

2.5.2 PAYMENTS

Cash flow- Suppliers and employees

Suppliers and employees comprise Employee related cost, Remuneration of councillors, contracted services, transfers and grants and other expenditure. The adjustments on these items are as follows:

Suppliers and employees

Approved budget is R97.3 million, this increased to R108.4 million.

Transfers and Grants

The approved budget for transfers and grants is R1.1 million and adjusted to R11.6 million. This adjustment is made of R5.4 million INEP grant and electrification projects funded internally.

Capital Assets

The original approved budget is R47.6 million, capital assets adjusted to R45.5 million.

Cash and Cash Equivalent

The original approved budget for cash and cash equivalent opening balance was R16.7 million which has been corrected in this adjusted budget to R16.2 million. Cash flow has been prepared in accordance with the cash inflows and outflows and municipality has made proper projection from February to June 2020, and there is no doubt that the closing cash and cash equivalent of R7.7 million is a reliable estimate.

2.6 ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

The adjustments to the service delivery and budget implementation will be effected after the adjustment budget has been approved by the municipal council.

2.7 EFFECT OF THE ADJUSTMENT BUDGET ON PROVISION OF BASIC SERVICES

The effect of these adjustments will ensure accelerated basic service delivery to all stakeholders and will help mitigate the drought issue facing the municipality

2.8 STRATEGIC AND LEGAL IMPLICATIONS

Section 28 of the Municipal Finance Management Act of 2003 allows Council to revise an approved budget via an adjustments budget process. Section 28 (2) of the same act lists the conditions under which Council can consider an adjustments budget. This adjustments budget is presented to Council of the Municipality in terms of section 28 (2) (b), (e) and (f) of the MFMA and other applicable guidelines as promulgated by National Treasury and applicable local government best practices. An Accounting Officer's quality certificate is also attached as prescribed by the municipal regulations

2.9 MEASURABLE PERFORMANCE OBJECTIVES AND INDICATORS

I. Current ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\text{R 15 858 000}}{\text{R 12 374 000}}$$

$$= \underline{\underline{1.28: 1}}$$

This means that current obligation are covered 1.28 times to current assets and also means that municipality would be able to pay its debts when it became due in the next period of 12 months.

2.10 ADJUSTMENT BUDGET TABLES

The adjustment budget tables consist of:

- Table B1- Adjustment Budget Summary
- Table B2- Adjustment Budget Financial Performance (standard classification)
- Table B3- Adjustment Budget Financial Performance (revenue and expenditure by municipal vote)
- Table B4- Adjustment Budget Financial Performance (revenue and expenditure)
- Table B5- Adjustment Capital Expenditure Budget by vote and funding
- Table B6- Adjustment Budget Financial Position
- Table B7- Budget Cash Flows
- Table B8- Cash backed reserves/ accumulated surplus reconciliation
- Table B9- Asset Management
- Table B10- Basic service delivery measurement

The above tables and its supporting schedules (B Schedule) are attached as **Annexure A** on this report.

2.11 CONSULTATIONS

MFMA 56 of 2003,
MFMA circulars,
All relevant internal stakeholders

3. RESOLUTIONS / RECOMMENDATIONS

It is recommended that

- It be noted that the adjustment budget is being tabled by the Mayor in terms of section 28 (2) (b) and (e), as well as section 28 (4) of the MFMA.
- It be noted that the adjustment budget is fully compliant with section 28 (6) of the MFMA in that municipal tax and tariffs will not increase as a result of the adjustments budget.
- The 2019/20 adjustment budget be approved and adopted.
- Upon approval of the adjustment budget, in terms of section 22 (b) of the MFMA, the adjustment budget is submitted in both printed and electronic formats to the National Treasury and Provincial Treasury.

QUALITY CERTIFICATE

I, Mr PN Mhlongo, the Municipal Manager of Maphumulo Municipality, hereby certify that the 2019/20 adjustments 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 adjustments budget and the supporting documentation are consistent with the Integrated Development Plan of the municipality.

Name: Mr PN Mhlongo

Municipal Manager of Maphumulo Municipality, KZN294

Signature: _____

Date: _____