

**2021-2022**  
**ADJUSTMENT BUDGET**  
**REPORT**



## **Table of Contents**

1. PURPOSE OF THE REPORT
2. LEGISLATIVE BACKGROUND
3. MAYOR'S REPORT
4. RESOLUTIONS
5. EXECUTIVE SUMMARY
6. OVERVIEW OF BUDGET ASSUMPTIONS
7. PROPOSED OPERATING REVENUE & EXPENDITURE
8. CAPITAL EXPENDITURE
9. CASH FLOW
10. RECOMMENDATION

### **ANNEXURE A (SCHEDULES)**

1. 2021/2022 SUMMARY OF ADJUSTED BUDGET FINANCIAL PERFORMANCE
2. 2021/2022 DETAILED PROPOSED ADJUSTMENT CAPITAL BUDGET
3. 2021/2022 OTHER EXPENDITURE

### **ANNEXURE B (LIST OF TABLES)**

1. Table B1: Adjustment Budget Summary
2. Table B2: Adjustment Budget Financial Performance (standard classification)
3. Table B3: Adjustment Budget Financial Performance (revenue & expenditure by municipal vote)
4. Table B4: Adjustment Budget Financial Performance (revenue & expenditure)
5. Table B5: Adjustment Budget Capital Expenditure Budget by vote & funding
6. Table B6: Adjustment Budget Financial Position
7. Table B7: Adjustment Budget Cash Flow
8. Table B8: Cash backed reserves/accumulated surplus reconciliation
9. Table B9: Asset Management
10. Table B10: Basic Service Delivery measurement

## **PURPOSE OF THE REPORT**

To seek approval from Council on the adjustments proposed to the 2021/2022 original Operational and Capital Budget.

To set out the options available to Council to fund the adjusted capital budget and to improve the municipality's cash flow position.

## **LEGISLATIVE BACKGROUND**

Section 72(3) of the MFMA requires that the Accounting Officer must as part of the (mid-year) review:

- (a) Make recommendations as to whether an adjustments budget is necessary; and
- (b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

In addition, Regulation 23(3) of the Municipal Budget and Reporting Regulations requires that if a National or Provincial Adjustments Budget allocates or transfers additional revenues to a municipality, the Mayor of the municipality must, at the next available Council meeting, but within 60 days of the approval of the relevant National or Provincial Adjustments Budget, table an Adjustments Budget referred to in Section 28(2)(b) of the MFMA in the municipal council to appropriate these additional revenues.

In terms of Section 28(2) of the MFMA, 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 revise or accelerate spending programs already budgeted for;
- c) May, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the Mayor or the municipality;
- d) May authorize the utilization of projected 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 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.

Regulation 21 of the Municipal Budget and Reporting Regulations states that an Adjustments Budget and supporting documentation of a municipality must be in the format specified in Schedule B and include all the tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act.

Regulation 22 of the Municipal Budget and Reporting Regulations further states that

- 1) an adjustments budget must be appropriately funded and
- 2) the supporting documentation tabled in a municipal council in terms of Section 28(5) of the Act must contain an explanation of how the adjustments budget is funded.

When processing virements in the annual budget, the municipality must consider MFMA Circular No. 51 and ensure that the virements are made in accordance with the municipality's approved virements policy. The following principles should be adhered to:

- virements should not be permitted in relation to the revenue side of the budget;
- virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management;
- virements from the capital budget to the operating budget should not be permitted;
- virements to or from the following items should not be permitted: bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue foregone, insurance and VAT;
- virements should not result in adding 'new' projects to the Capital Budget;
- virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- there should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5% of the budget may be moved to or from a vote, program, project etc.)

The importance of tabling funded budgets is highlighted in MFMA Circular 89 and is one of the game changers identified in local government to ensure financial sustainability. The municipality has challenges in correcting the budget to ensure it is funded in one financial year. As a result, the municipality must together with the 2021/2022 MTREF budget table a plan in the council on how and by when the budget will improve from an unfunded to a funded position.

Virements may be used by the municipality to address differences between the mSCOA data string and the Council approved budget. In line with this the virement policy needs to be reviewed and aligned to mSCOA requirements. The virement policy is required to be aligned to MFMA Circular 51. Cognizance must be taken of a change to any of the prescribed segments of mSCOA. Restrictions and/or limitations within MFMA Circular No 51 must be adhered to when aligning the virement policy to the requirements of mSCOA.

The Adjustment budget submission must ensure that the project detail (IDP) contains all projects from the strategic initiative of the municipality and are aligned to the financial data contained in the adjustment budget.

Only the Mayor may table an Adjustments budget in the municipal council. When an adjustments budget is tabled it must be accompanied by-

- a) An explanation of how the adjustments budget affects the annual budget;
- b) A motivation of any material changes to the annual budget;
- c) An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years;
- d) Any other supporting documentation that may be prescribed.

# ADJUSTMENT BUDGET SPEECH

2021/2022 Adjustment Budget Speech by his worship the Mayor, Councillor MC Maphisa, at Abaqulusi Council Chambers on the <sup>th</sup> of February 2022 at a Council meeting.

Mr Speaker, I wish to present an overview of the adjustment budget for the 2021/2022 budget year. This adjustment document is prepared in terms of the Municipal Budget and Reporting Regulations.

With the tabling and approval of the 2021/2022 budget, a strong focus is placed on Service Delivery and fighting poverty.

It is important to state that the focus of the adjustment budget is based on the result of the Mid-year review concentrating on the performance management of each department looking at the mid-year expenditure against the budget.

The adjustment budget has been prepared in such a way that value for money and sustainability are key considerations. It is important to note that expenditure required to address the challenges facing the municipality and our communities will always exceed the available funding, hence difficult choices have been made in balancing expenditure against realistically anticipated revenue as stipulated in Section 18 of the MFMA.

## **MID-YEAR BUDGET ASSESSMENT**

The following observations were made during the mid-year budget assessment report that was tabled before Council at the beginning of February 2022.

### **Operating Budget Revenue**

In total 104% of revenue or R 348,1 million compared to the budget of R 334,7 million has been received. To date 2 tranches of Equitable Share and all other grant funding has been received.

The municipality billed 122,7% of the property rates compared to the approved budget at mid-year which is R 51,2 million collected against a budget of R41,7 million and the estimated actual for the financial year is R83,4 million

Revenue from service charges was under collected as follows:

Revenue from electricity billed is 93,6% or R 102,9 million and budget of R 109,9 million and the estimated actual for the financial year is R 219,8 million

Revenue from water billed is 116,4% or R 24,2 million and budget of R 20,8 million and the estimated actual for the financial year is R 41,6 million

Revenue from sanitation billed is 116% or R 16,1 million and budget of R 13,8 million, the estimated actual for the financial year is R 27,7 million

Revenue from refuse collection billed is 102,2% or R 11,8 million and budget of R 11,5 million and the estimated actual for the financial year is R23,1 million

The collection of revenue from fines and penalties is 24% or R 2,9 million compared to a budget of R12,3 million. Included under fines and penalties is the penalties charged to consumers on overdue accounts

Revenue collected for licences and permits amounts to 140,52% or R 3,6 million compared to the mid-year budget of R2,5 million

Revenue from investments on the current accounts is 70,19% or R 589 thousand compared to a mid-year budget of R840 thousand

Total internal revenue estimated for the financial year is R 220,3 million which is R 5,5 million more than the original budget, total equitable share and operating grants of R 127,8 million and R26 million for MIG

The total estimated revenue for 2021/2022 is R 613,9 million

## **Expenditure**

The actual expenditure for the first 6 months is 91,78% or R 285,4 million against the approved budget of R310,9 million and this is attributed to:

- Employee costs of 109,49% or R 90,2 million compared to the budget of R 82,4 million due to bonuses paid in December
- Bulk purchases of 85,73% or R 102,8 million compared to the budget of R 120 million which has been paid in the 1<sup>st</sup> six months of the year
- Free basic services costs of R 7,7 million and estimated for the year of R 15,5 million
- Repairs and Maintenance expenditure of 62% or R 7,8 million compared to the budget of R 12,6 million
- Contract payments of 121,78% or R 53,6 million compared to the budget of R 44 million
- Capital payments of 57,77% or R 16,1 million mostly from MIG compared to the budget of R 27,9 million
- General expenditure of 124,94% or R17,6 million compared to the budget of R 14,1 million

## Main Challenges

- The main challenge the municipality is facing is the impact that Covid is having on the community to pay for services and this has resulted in less revenue being collected
- The ongoing challenge due to the ageing of water and sanitation pumps is impacting on expenditure and communities being without water
- The ongoing theft of cable and cutting of poles is a big loss of income from service charges
- One of the main challenges being experienced is the need to reprioritize projects and high expenditure rate given the cash flow realities and declining cash position of the municipality
- The on-going growth of the debtor ageing and indigent applications, the municipality is struggling to maintain a 90% collection rate as in the past

The non-collectable debtors which should be written off as no debt has been written off since 2012. The outstanding debtors amounts to R296,6 million of which R260,8 million is older than 90 days

- Ageing infrastructure for water, sanitation, roads and electricity as well as limited resources within the departments
- Continuous high tariff increases making services no longer affordable and the Eskom % increase compared to the % increase allowed by municipalities
- Affordability of capital own funded capital projects, original allocations have to be reduced during the current year and factored where possible into the following financial year placing a further burden on the draft budget

## Achievements

During the 1<sup>st</sup> half of the year the municipality managed to spend 71% on MIG

## Focus

As it is clear that the municipality is cash strapped, over and above cost containment measures preferred by the National Treasury, the municipality needs to adopt a bold and radical approach in its revenue enhancement program. As a matter of utmost urgency, the municipality needs to consider the following from March ongoing:

- ✓ The writing off the old debt that has been identified following the data cleansing exercise and maintenance of the consumer database
- ✓ Disconnect fraudulent consumers, in all respects
- ✓ Provide and replace water meters to address water losses
- ✓ Provide and replace electricity meters to address electricity losses
- ✓ Upgrade of street lighting
- ✓ Source funding from National Departments
- ✓ Rehabilitate our environment
- ✓ Improve tourist attraction
- ✓ Make a foot print on local economic development
- ✓ Update the water distribution register



- ✓ Review all budget related policies as soon as possible to circumvent high tariff increases and ensure the policies are mSCOA compliant
- ✓ Using funds for purposes they are meant for and have time-lined implementation plans
- ✓ Ward IDP

I would like to thank all members of this Council, including all representatives of all political parties and all members of the administration for their contributions made. A budget is defined as “a plan for spending money wisely” and the administration under the Municipal Manager and the Acting CFO and her team are trying to install strict fiscal discipline. I would further like to thank all members of the public who assisted and took part in putting the municipality on the winning path. Every input, suggestion and all active participation is valued. Abaqulusi Municipality is an example of what can be achieved with a partnership of an active and participating community and a responding Council. We must never forget that this is the purpose of local government and that we are mere servants placed here to serve our community. I would also like to thank all sectors of the community who still need upgrading of services and facilities who have been patiently waiting with us to achieve it. Trust us we are equal to the task.

Mr Speaker I am humbled by the huge task entrusted to me as leader of this Council, and the opportunity to table this Adjustment Budget to better serve our people. My team and I would like to ensure every citizen of Abaqulusi that we shall work tirelessly and leave no stone unturned to create a community of excellence for all with the funds entrusted to us. Trust us we will gradually achieve this

Mr Speaker, in the item serving before Council the recommendations are set out as recommended in the Adjustment Budget item. I herewith formally submit recommendations to Council for consideration and approval of the 2021/2022 adjustments budget.

I would like to make the following recommendations: (Proposed Resolutions)

1. That the operational expenditure budget be adjusted from R 613,5 million to R 683,2 million. The main proposed adjustments are for the increase in the expenditure budget of R2,5 million for employee costs for EPWP, an increase on contractors for technical services. An increase in capital expenditure to make provision for Park Home Offices for EXCO of R1,8 million
2. That the revenue budget be adjusted from R 654,4 million to R 730,5 million including capital transfers and contributions. The proposed amendments to the revenue are a reduction in electricity, an increase in fines and penalties due to the interest that needs to be charged to consumers with overdue accounts as required by Section 64(2) of the MFMA and was raised by the Auditor-General during the 2020/21 audit as well as additional revenue from the sale of stands.
3. That the payment levels which in previous been above 92% but reduced in the 2<sup>nd</sup> quarter to 86,86% be monitored and ensure the collection rate increases to above 90%

4. To implement and monitor the cash flow turnaround strategy to improve effective financial management
5. To monitor collection levels during the remaining budget period to ensure that funding is available to finance expenditure
6. That under no circumstances should expenditure be incurred that is not budgeted for. Disciplinary action be taken against the person liable for that unbudgeted expenditure
7. That, in compliance with the MFMA the financial results regarding the operating and capital budgets for the Adjustment Budget of the 2021/2022 financial year, and supporting documents as required by National Treasury (Schedule B) be submitted to Council for approval
8. This report be submitted to the National Treasury and the relevant Provincial Treasury *within five days* of tabling of the report in the council, in both a Council approved document and in electronic format
9. The Planning Section of Finance does the necessary adjustments to the Revenue & Expenditure **Budgets** on the Munsoft Financial System and all projects other than the projects for infrastructure maintenance be blocked and expenditure only be incurred if supporting documentation motivating the expenditure be submitted to the Accounting Officer and CFO for approval *prior* to the expenditure being incurred
10. No hand orders be issued for suppliers, only suppliers registered on the CSD be utilized to ensure there is no expenditure incurred for which there is no budget.
11. No temporary requisitions be issued by stores, all departments requiring stock from stores submit a Munsoft requisition prior to items being released from stores

## EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities

The Municipality's service delivery priorities were reviewed as part of the planning and adjustment budget process. A critical review was undertaken of expenditure on non-essential and 'nice-to-have' items. The Adjustment Budget for 2021/22 is based on the realisation that revenues and cash flows remain under pressure and the municipality must adopt a conservative approach when projecting expected revenues and cash receipts

The Adjustment budget was compiled by ensuring that the financial management processes are transparent, aligned to the accountability cycle and facilitate good governance that is accountable to the local community

During the approval of the 2021/2022 budget we had advised that the cash collection rate may still feel the impact of the recession the country is experiencing. In the previous financial year, the collection rate was 85,27% and for the six months of this financial year it has decreased to 85,06%

Some of the anticipated own revenue collection on trading services (i.e. Electricity, Water, Sanitation & Waste Management) has not materialised as projected, however when compared to the 1<sup>st</sup> six months in the previous financial year revenue the billed revenue has increased and is much more in line with the budgeted amount for water and electricity

In keeping with National Treasury Circulars regarding the managing of costs, reductions have been made on costs which are not urgent in the current financial year, or in the short term, have been deferred to the next financial year should resources be available. The reductions are in keeping with the cost containment that has been implemented

### **Current funding compliance assessment information**

The audit outcomes relate to the past performance of a municipality and provide a good indication on the state of municipal financial management rather than the state of municipal finances.

The following key financial management objectives are used:

- a) Short term viability and consideration of whether the community is 'paying its way' relative to economic benefits received;
- b) Medium and long-term sustainability; ensuring that the broader community maintains control over outcomes within appropriate levels of affordability;
- c) Achievement of community aspirations and service delivery goals;
- d) Maintenance of a good credit rating and minimising financing costs; and
- e) Achieving and maintaining key prudential measurements; e.g. borrowing limits.

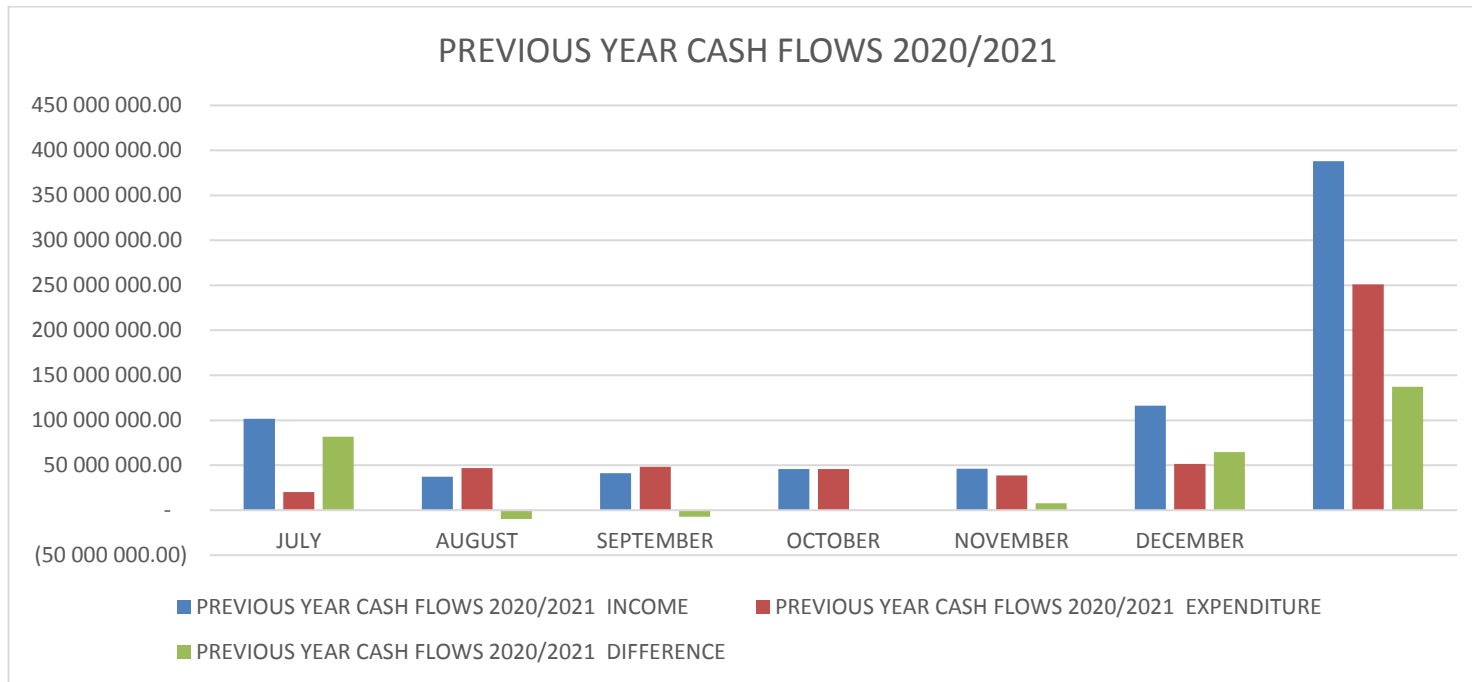
### **Vulnerable cash position**

The municipality may not in terms of section 45 of the MFMA close the financial year with any short-term borrowing or overdraft. It must further ensure that there must be sufficient cash and investments to fulfill our legal obligations to provide not only to be able to meet the monthly payments as and when they fall due but for the cash-backing of reserves and other working capital requirements. It is generally accepted that the municipality must have sufficient cash coverage of three months of average operational expenditure.

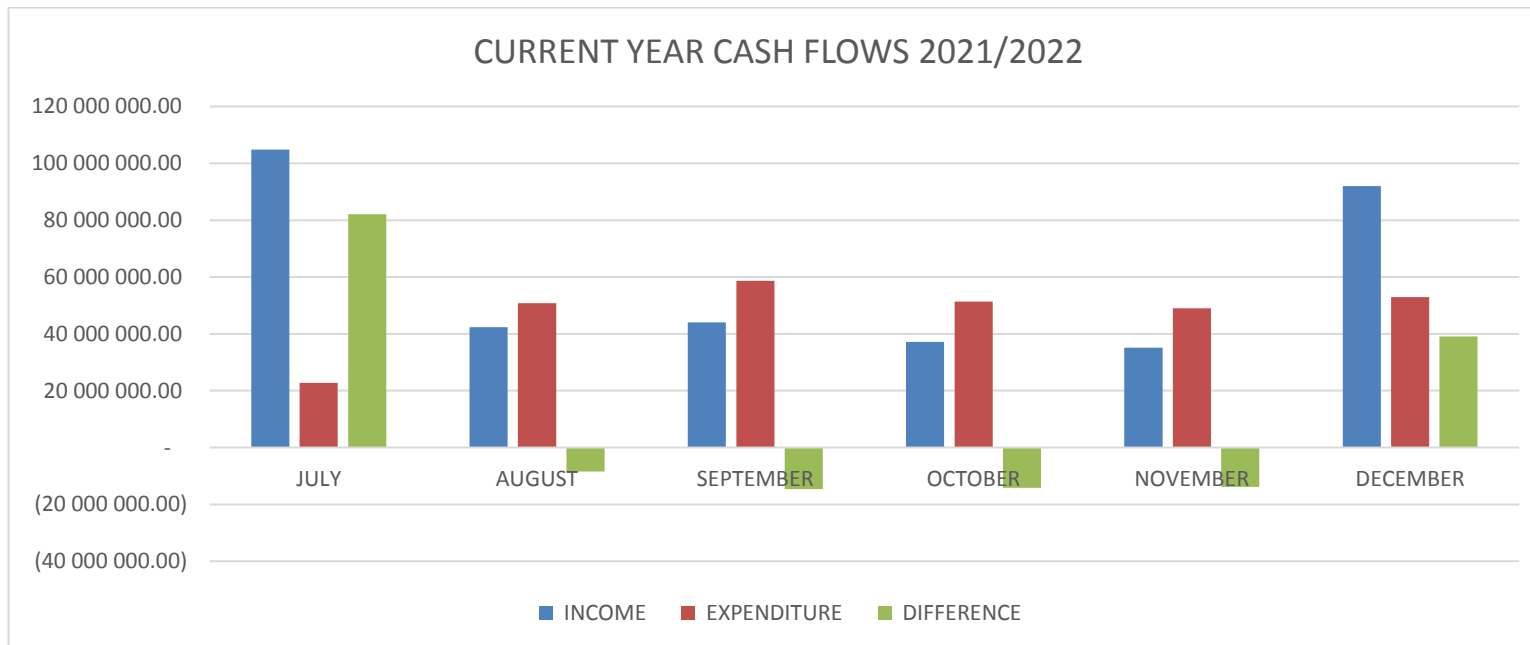
Of the reasons noted by National Treasury why municipalities' cash coverage is:

- A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs on the affordability of household budgets;
- The need to pay suppliers, especially contractors responsible for capital projects;
- The need to finance the cash-flow difference between paying for the increased cost of bulk electricity and the collection of revenues from customers;
- Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue.
- A rate-payers/consumers boycott.

PREVIOUS YEAR CASH FLOWS 2020/2021			
	INCOME	EXPENDITURE	DIFFERENCE
JULY	101 563 463.11	20 001 506.31	81 561 956.80
AUGUST	37 383 829.84	47 010 761.10	-9 626 931.26
SEPTEMBER	41 156 002.59	48 379 138.42	-7 223 135.83
OCTOBER	45 759 393.44	45 631 266.49	128 126.95
NOVEMBER	46 119 562.34	38 492 437.82	7 627 124.52
DECEMBER	116 190 594.12	51 544 559.47	64 646 034.65
	388 172 845.44	251 059 669.61	137 113 175.83



CURRENT YEAR CASH FLOWS 2021/2022			
	INCOME	EXPENDITURE	DIFFERENCE
JULY	104 798 770.92	22 717 918.67	82 080 852.25
AUGUST	42 299 202.93	50 751 689.17	-8 452 486.24
SEPTEMBER	44 001 597.89	58 677 415.54	-14 675 817.65
OCTOBER	37 219 465.53	51 383 961.95	-14 164 496.42
NOVEMBER	35 124 204.57	48 955 543.38	-13 831 338.81
DECEMBER	92 038 183.43	52 948 494.37	39 089 689.06
	355 481 425.27	285 435 023.08	70 046 402.19



## Risks posed by the current state of finances

The municipality must ensure that it does not fall into the risks associated with financial stress which are:

### Service delivery risks

- Staff do not get paid – and so refuse to work
- Bulk services do not get paid for – so services could be cut
- Contractors and suppliers do not get paid
- Repairs and maintenance are invariably among the first expenditures cut placing service delivery at risk, as well as future revenue

### Fiscal risks

- Poor financial management processes and systems exposes the municipality to corruption
- The municipalities are failing to properly utilise the resources available to them by failing to collect available revenues
- Poor financial management increases the cost of borrowing

## Budget Related Resolutions

The Municipal Finance Management Act (MFMA) No 56 of 2003 requires that the municipality table and adopt the budget and budget resolutions. The format of the budget and supporting documentation is prescribed by the Municipal Budget and Reporting Regulations.

## Summary Statement of Financial Performance

### Summary

	Original Budget	Adjustments	Adjustment Budget
Revenue	613 934 000.00	76 097 334.00	730 579 159.00
OPEX	613 553 388.00	69 695 478.00	683 248 866.00
	<b>380 612.00</b>	<b>6 401 856.00</b>	<b>47 330 293.00</b>
CAPEX	44 908 437.00	2 421 856.00	47 330 293.00
<b>Funding Sources</b>			
MIG	37 151 650.00		37 151 650.00
INEP	1 776 787.00	323 213.00	2 100 000.00
Own Revenue	5 980 000.00	2 098 643.00	8 078 643.00
	<b>44 908 437.00</b>	<b>2 421 856.00</b>	<b>47 330 293.00</b>

## **CHALLENGES FOR THE 2ND HALF OF 2021/2022**

The major challenge the municipality faces going forward is that due to the depleted revenue and the current over commitments the general expenditure will be blocked. Further challenges include the cost containment measures that National Treasury have advised municipalities to implement to provide reasonable assurance that all expenditure in all sections are necessary, appropriate, paid promptly and adequately recorded. Given the economic challenges facing the community where resources are scarce it is imperative that funds are utilised effectively and economically.

To ensure compliance the following measures must be implemented as National Treasury have notified the Auditor-General who will be monitoring whether these changes have been implemented when the audit is conducted:

- Engagement of consultants – ensure a needs analysis has been confirmed that the relevant section does not have the requisite skills or resources in its full time employ to perform the assignment in question. The appointment of consultants may only be approved by the Accounting Officer and consultants may only be remunerated in terms of the guidelines issued by SAICA.
- Hotel accommodation must be in terms of the National Treasury policy. Overnight accommodation must be limited to instances where the distance by road exceeds 500 kilometers to and from the destination.
- Trips by vehicles must be optimised to reduce costs. Travel must be limited to meetings or events that are considered absolutely critical and the number of employees attending such meetings or events must be limited to those employees that are directly involved in the matter or event.
- Claims for meals must be prohibited if the hotel rate already includes dinner and/or breakfast or if the conference fee includes lunch and/or dinner.
- Supplier and early settlement discounts must be negotiated to secure lower prices.
- Savings on the amount of paper used must be considered by printing documents 'back to back' and using colour printing prudently. The use of electronic mail must be encouraged.
- Staff should be encouraged / educated on the prudent use of water and electricity usage in buildings to lower utility costs.
- Stricter control of allowances to employees making private calls.
- Telephone and/or video conferencing facilities must be used, where possible, to avoid unnecessary travel and subsistence costs.
- Advertising for vacancies should be placed through bulk advertisements.



- Every effort must be made to recover debts from debtors before giving any consideration to writing off debts.
- Meetings and planning sessions must as far as practically possible be held in-house. Meetings attended by Councillors/employees may not incur catering expenses for internal meetings. Catering should be limited to functions where external government departments are attending and limited to light snacks.
- Purchasing of new furniture and equipment and office refurbishments should only be undertaken where absolutely necessary.

Revenue generated from property rates and service charges forms a significant percentage of the revenue source of the municipality.

The approved operating revenue budget amounts to R 613,9 million. For the period under review the planned SDBIP target is R334,7 million and the actual revenue collected to date is R 348,1 million. When comparing the planned against the actual revenue there is a 24,4% over performance shown. This is mainly due to the 1<sup>st</sup> and 2<sup>nd</sup> tranche of Equitable Share having been received as well as funding for MIG, INEP, FMG. Arts & Culture and EPWP.

**Reasons for major variances between planned and billed/actual revenue collected as at 31 December 2021:**

- revenue billed from rates is 23% above the planned projection
- revenue billed from electricity sales is 6% below the planned projection
- revenue billed from water sales is 16% above the planned projection
- revenue billed from sanitation sales is 16% above the planned projection
- revenue billed from refuse sales is 2% above the planned projection
- It must also be noted that the half year income reflects the second tranche of the equitable share which must be carried over into next quarter. This inflates the six-month Income figure as shown above.

The municipality is still expected to deliver services in an area which is growing with fewer funds to do so.

The major operating revenue variances against budget to date are:

- Property rates billed including penalties and collection charges – R 9,4 million more than budget
- Service charges billed – R1 less than budget
- Government Grants and subsidies – Operating – no additional equitable share allocated by National Treasury to local municipalities
- Government Grants and subsidies – Capital – an additional amount of R4 million has been allocated by Provincial Sport
- Other Income – R 218 thousand less than budget

The Directors and Managers are playing their oversight on their budgets and monitoring their spending as advised monthly by the Finance Department, the main concern is the lack of income and this is going to result in Finance again having to block non-essential votes to try and limit spending. This will hamper service delivery in the second half of the year and result in no additional funding being made available.

The approved operating expenditure budget amounts to R 613,5 million. For the period under review the planned SDBIP target is R 310,9 million and the actual expenditure to date is R 285,4 million. When comparing the planned against the actual expenditure there is an 8,2% under expenditure

### **Reasons for major expenditure variance variances against budget are:**

- Employee costs – 9% or R7,8 million more than budget which is due to bonuses paid in December 2021
- Repairs and Maintenance – 37,9% or R 4,8 million less than budget
- Bulk purchases – 14% or R 17,1 million less than budget
- General expenses – 25% or R 3,5 million more than budget
- Contracted services – 22% or R9,6 million more than budget

### **Reason for major variance of year-to-date capital expenditure, compared to departmental Service Delivery Budget Implementation Plans (SDBIP) targets for the municipal vote is:**

- Capital program for MIG projects is ongoing as well as the electrification of Eskom areas, these projects are funded from grants.

Borrowings – own resources need to be accumulated before capital projects are embarked upon. Due to the impact of the growth in external funding on the operating budget the municipality currently enters into finance leases for the acquisition of new vehicles rather than rely on external funding to fund the capital budget.

As at the end of December 2021, R 296,6 million was outstanding for debtors, with R 260,8 million outstanding for longer than 90 days. The effect of Covid on the economy is evident and the outstanding debtors has increased by +/- R48 million when compared to the same time last year.

The municipality needs to consider appointing staff/outsource for the continuous audit and social assessments of households to identify households that apply for indigent status.

### **Other Financial Issues**

This executive report continues to highlight the performance achievement of the Finance Department during the first half of the financial year, taking into account:

- i. The targets set in the service delivery and business delivery

The main strategic goals during the 2021/2022 as set out in the business plan and reported in the performance report were for the following:

- The optimization of revenue collection by using incentives to encourage payments, increasing the number of payment methods, increasing the billing coverage and vigorously implementing the credit control policy and bylaws through effective implementation of the existing legal processes.
- Increasing the number of paying consumers by improving better communication and better relationships with consumers.

- Reduction of costs through reduction in physical and bulk losses.
- Improve service delivery to community through best practices.
- Reduction and/or control of expenditures mainly through the control of overhead costs by utilizing effective systems (blocking projects on the financial system)
- Alignment of structure with organizational strategy.
- Counteract wasteful water and electricity practices through education and awareness campaigns.
- Raising the level of awareness of consumers about hygiene and environmental health in compliance with regulatory requirements.
- Continual development of the required strategic skills from managerial levels to lower levels.
- Identify and manage operational and financial risks within the existing regulatory framework/environment.
- Manage and maintain an effective and efficient network system within the total Abaqulusi area.
- The reduction of overtime costs by implementing stricter monitoring controls and limiting the number of hours per employee to 40 hours per month.

**Feedback and responses from Provincial Treasury assessment of the Section 72 Mid-year report (attached)**

- Revenue from property rates – the revenue generated is above budget due to government departments paying in advance for the year
- Revenue from electricity – the revenue is below budget due to the R140 per household that could not be implemented and has been removed during the adjustment budget
- Revenue from water – the increase in revenue is due to meters that have been installed where meters were previously damaged or by-passed, revenue has been increased during adjustment budget
- Revenue from sanitation – the increase is linked to the water consumption; revenue has been increased during adjustment budget
- Revenue from refuse removal – there were consumers that were not paying in the past who are now being charged, the budget has been adjusted
- Revenue from facilities and equipment was below the projected baseline - it was explained this is due to Covid as facilities were closed
- Interest from investments – less revenue due to no surplus cash available to invest
- Interest earned on outstanding debtors – the budget for this revenue has been adjusted
- Fines & penalties – the budget for fines includes the provision which is calculated at year end
- Licences and permits – the budget has been adjusted
- Other revenue – the budget has been adjusted

- There is currently no budget for finance charges which is interest charged to the municipality due to non payment of accounts.
- Employee costs – the higher expenditure than budget is due to bonuses that are paid in December as well as an increase in overtime paid. The overtime will be monitored and stricter controls implemented, the municipality has experienced additional breakdowns due to excessive rains that fell during the November and December 2021
- Debt impairment – this provision is only calculated at year end
- Depreciation & asset impairment – this provision is only calculated at year end
- Other materials (repairs and maintenance) – the expenditure has been adjusted in line with the year to date spending
- Contracted services – an analysis has been done to ensure the correct amount is budgeted
- Transfers and grants – the expenditure for EPWP and free basic services and the budget has been adjusted
- Other expenditure – this has been reduced in line with current expenditure and will be closely monitored in the last 5 months of the year
- Capital from own funding – Treasury advised the municipality to consider putting projects from own funding on hold until the cashflow improves
- Cashflow – the municipality does not appear liquid (sufficient cashflow) as it is only 0.27 which is below the norm of between 1 and 3 months
- Debtors – the amount owed by consumers to the municipality has increased by R91,5 million since June 2021
- The municipality owes creditors more than 30 days – there is a payment plan in place with SALGA and the other service provider issue is currently at court
- Grant funding – the expenditure on MIG was below average but the municipality advised that the spending will increase in the 3<sup>rd</sup> quarter

Our Ref.: 9/1/1/7

Your Ref.

Enquiries: M Mthembu

Dept.: Finance



57, VRYHEID 3100

c/o, Mark & High Street



(034) 982-2133



Fax: (034) 982-1939

E-mail: [finance@abaqulusi.gov.za](mailto:finance@abaqulusi.gov.za)

## QUALITY CERTIFICATE

I, **JS Landman**, Acting Municipal Manager of **ABAQULUSI MUNICIPALITY**, hereby certify that: (mark as appropriate)

- The monthly budget statements
- Quarterly report on the implementation of the budget and financial state of affairs to the municipality
- Adjustment budget

The Adjustment Budget 2021/2022 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

\_\_\_\_\_  
**JS LANDMAN**  
**ACTING MUNICIPAL MANAGER**  
**ABAQULUSI MUNICIPALITY**  
**KZN263**

\_\_\_\_\_  
**DATE**

Our Ref.: 9/1/1/7

Your Ref.

Enquiries: M Mthembu



✉ 57, VRYHEID 3100

c/o, Mark & High Street



(034) 982-2133



Fax: (034) 982-1939

E-mail: [finance@abaqulusi.gov.za](mailto:finance@abaqulusi.gov.za)

---

## CONFIRMATION CERTIFICATE

I, \_\_\_\_\_, the Chief Financial Officer of (**ABAQULUSI MUNICIPALITY**.) have checked the Report and done the Review Session with my Department. The POE's are categorised according to the index. (*Marked as appropriate*)

The December Monthly Report

Quarterly Report on the implementation of the  
Financial State of affairs to the Municipality

Adjustment Budget

Medium Term Report

I hereby confirm that the above is a true reflection of the Finance Section and in full compliance with Schedule 2 of the Municipal Systems Act.

\_\_\_\_\_  
**MPE MTHUMBU**  
**CHIEF FINANCIAL OFFICER**  
**ABAQULUSI MUNICIPALITY**  
**KZN263**

\_\_\_\_\_  
**DATE**

## **ANNEXURE A (SCHEDULES)**



## **ANNEXURE B (LIST OF TABLES)**