



**EPHRAIM MOGALE LOCAL
MUNICIPALITY
ADJUSTMENTS BUDGET
2016/2017
&**

SUPPORTING DOCUMENTATION

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ABBREVIATIONS

MFMA- Municipal Finance Management Act 56 of 2003

MBRR- Municipal Budget and Reporting Regulations

MTREF- Medium Term Revenue and Expenditure Framework

EPWP – Expanded Public Works Programme

FMG – Finance Management Grant

INEP – Integrated National Electricity Program

MIG –Municipal Infrastructure Grant

MSIG – Municipal Systems Improvement Grant

EEDG –Energy Efficiency and Demand Side Management Grant

PART 1-ADJUSTMENTS BUDGET

1. Mayor's Report

This presented adjustment budget is an improvement on previous years simply due to the fact that it speaks to our improved 2015/2016 Auditor General Report's disclaimer opinion after 3 years. Looking into the current expenditure in revenue being increased.

The application of sound financial management principles for the compilation of the municipal'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. We urgently need to look at opportunities that will ultimately grow our municipality.

The water shortage and drought affected most parts of the country. With the need to increase the agricultural sector for food security and job creation, government intervention becomes crucial in normal household where they struggle to afford basic municipal rates & taxes. The overall adjustment has been adjusted upwards based on the increments in property rates, earned interests both external investments & outstanding Debtors.

The adjustment budget is based from the both 1st & 2nd Lekgotla resolutions where implementation of effective financial management is crucial. Appropriate funds were transferred from low- to high-priority projects. A critical review was also undertaken of the need to increase expenditures of capital projects & grants. The detail of the adjustment budget is presented in the schedules attached as annexure to this report.

FINANCIAL IMPLICATIONS

3.1 Revenue

The original budget revenue amounted to R263 Million and it was adjusted upward to R2678 Million because of the following reasons.

Property rates

- Property rates has increased by R1.7 Million based on six month performance.

Interest earned - external investments

- External investment has also increased by R5 Million as a results of interest accrued from municipal primary bank account. This major increase is as a results of slow spending on capital project.

Interest earned - outstanding debtors

- Revenue on outstanding debtors has also increased by R2.3 Million due to non-payment of municipal accounts.

However other revenue sources has decreased based on six month performance:

- Service charges on electricity has been reduced by R8 Million
- Service charges on refuse has been reduced by R48 Thousand.
- Rental of facilities and equipment has been reduced by R66 Thousand.
- Fines, Agencies services and licencing and permits has slightly been deduced also based on six mount performance.

3.2 Operational expenditure

Operational revenue original budget was R245 million and was adjusted upwards to R250 Million because of the following reasons:

Employee related cost

- Employee related cost has increased by R2.4 Million as a results of transferring EPWP and MIG salaries related expenditure from general expenditure to salaries budget.

Contracted services

- Contracted services has also increased many as a results of mSCOA project.

However the following operational expenditure has decreased:

Other material

- Other material has decreased by R2.6 Million as a results of transferring purchases of commuter expenditure to capital budget.

Other Expenditure

- o Other expenditure has slightly decreased manly as a results of separating transfers and grants expenditure as a separate line item.

Capital expenditure

Original Capital budget amounted to R65 Million and adjusted upwards because of the following reason;

- Technical services has receive a rollover of R8.4 Million of Mohlalaotwane internal street project hence an increase in their capital budget.
- Planning and economic development has decreased because of shifting R800 Thousand of building office space to next financial year.
- Corporate services has increased mainly as a results of shifting expenditure initially budgeted as operational instead of capital (Purchase of computer expenditure)
- Community services has decreased also as a results of reclassification. Leaner's license software were transferred from Capital to operational expenditure.

2. Resolution

To approve the Adjustment Budget for 2016/2017 financial year in terms of section 28 of the MFMA

To approve revision to the monthly and quarterly service delivery targets and performance indicators in the service delivery budget implementation plan, to correspond with adjustment budget.

To note that no amendment to budget related policies are necessitated by budget adjustment.

That the municipal manager implement the decision accordingly

3. Executive Summary

The adjustments budget for 2016/2017 was compiled in accordance with the requirements of the Municipal Finance Management Act, Act 56 of 2003, as well as the Municipal Budget and Reporting Regulations which gives a clear directive on the prescribed reporting framework and structure to be used.

The application of sound financial management principles for the compilation of the municipal'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 adjustment budget is based on the performance trend for the last six months, and was done in consultation with various departments within the municipality.

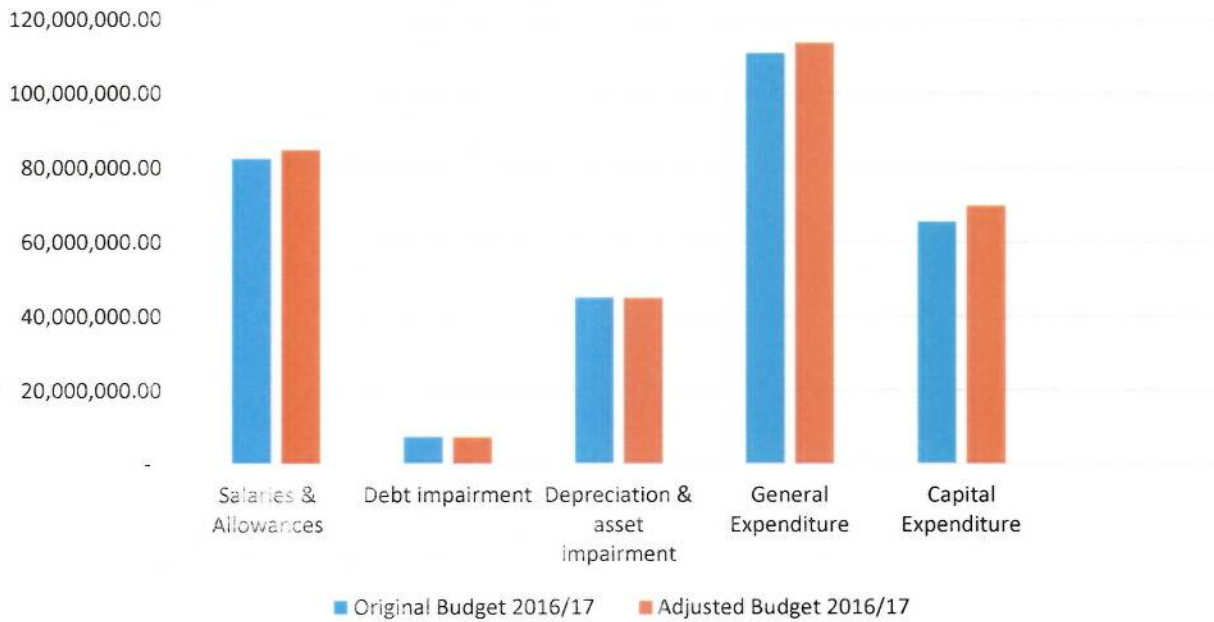
There are no material implications on service delivery for the remainder of this financial year as a result of this adjustments budget. Service Delivery Budget implementation Plan will be affected by adjustment budget due to the shifting of funds from one project to another.

Section 28 of the Municipal Finance Management act, provide that a municipality may revise an approved budget through an adjustment budget.

An adjustment budget needs to be funded. Additional funding can only be allocated from service identified in the votes, where additional revenue is collected in additional to the revenue budgeted for or under certain conditions from cash-backed reserved accumulated surpluses

The proposed adjustment budget can be summarised as follow:

Adjustment Budget 2016/2017



The graph illustrates that there has been slight movement in the 2016/17 financial year adjustment budget.

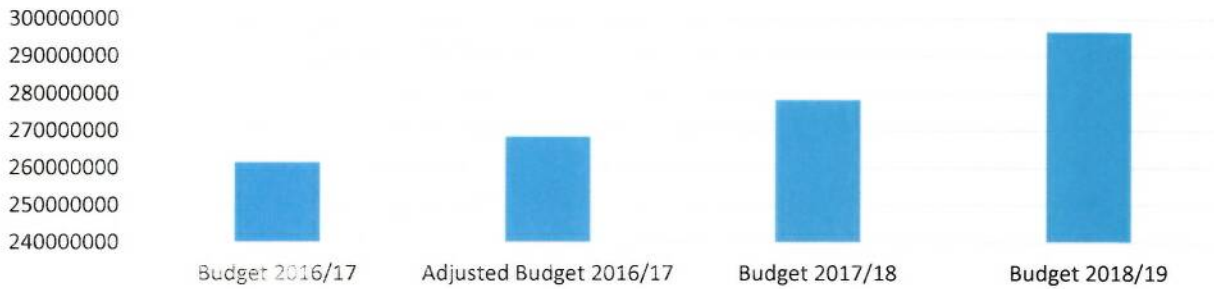
The overall operational budget (Salaries, General expenditure, repairs and maintenance, depreciation and General Expenditure) has slightly increased mainly as a result of reclassification of expenditure previously budgeted as capital budget on the annual budget now budgeted as operational budget (E.g. Master plan on Energy and Roads and water was previously budgeted under capital budget. They have both been transferred to operational budget).

Capital budget has slightly increased by R4.8 Million even though there was some expenditure which was shifted to operational budget, mainly as a result of rollover of R8.4 Million from MIG.

Revenue

The following Graph and table represent the summary of annual budget and proposed amendment on the adjustment budget as well as two outer years.

Revenue



Description	Budget Year 2016/17		Budget Year +1 2017/18	Budget Year +2 2018/19
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Revenue By Source				
Grants and Subsidies				
Equitable Share	117 556 000.00	117 556 000.00	127 003 000.00	135 210 000.00
FMG	1 810 000.00	1 810 000.00	2 145 000.00	2 400 000.00
EPWP	1 258 000.00	1 258 000.00		
MIG	31 917 000.00	40 324 309.40	34 179 000.00	36 987 000.00
Total Grants and Subsidies	152 541 000.00	160 948 309.40	163 327 000.00	174 597 000.00
Revenue generated from own sources				
Property rates	28 372 336.46	30 057 754.68	30 074 676.65	31 879 157.25
Service charges - electricity revenue	55 785 760.84	47 637 496.57	59 250 338.59	62 805 358.91
Service charges - refuse revenue	4 407 522.50	4 359 567.36	4 671 973.85	4 952 292.28
Rental of facilities and equipment	209 275.69	143 497.64	221 832.24	235 142.17
Interest earned - external investments	1 240 600.47	6 534 678.42	1 315 036.50	1 393 938.69
Interest earned - outstanding debtors	2 375 964.56	4 747 067.88	2 518 522.43	2 669 633.78
Fines	731 219.57	247 659.55	775 092.74	821 598.31
Licences and permits	3 395 770.99	3 121 158.48	3 599 517.25	3 815 488.29
Agency services	8 078 459.28	7 034 723.00	8 563 166.84	9 076 956.85
Other revenue	5 349 823.67	2 940 900.95	5 673 180.16	6 013 571.41
Gains on disposal of PPE	600 000.00	600 000.00		
Total Revenue generated from own sources	110 546 734.02	107 424 504.53	116 663 337.23	123 663 137.92
Total Revenue	263 087 734.02	268 372 813.93	279 990 337.23	298 260 137.92

The original total revenue budget was R263 Million which was adjusted upward to R268 Million due to the following:

Grants and Subsidies

- MIG rollover of R8.4 Million on mohlalotwane internal street project has increased grant revenue.

Property rates

- Property rates has increased by R1.7 Million based on six month performance.

Interest earned - external investments

- External investment has also increased by R5 Million as a results of interest accrued from municipal primary bank account. This major increase is as a results of slow spending on capital project.

Interest earned - outstanding debtors

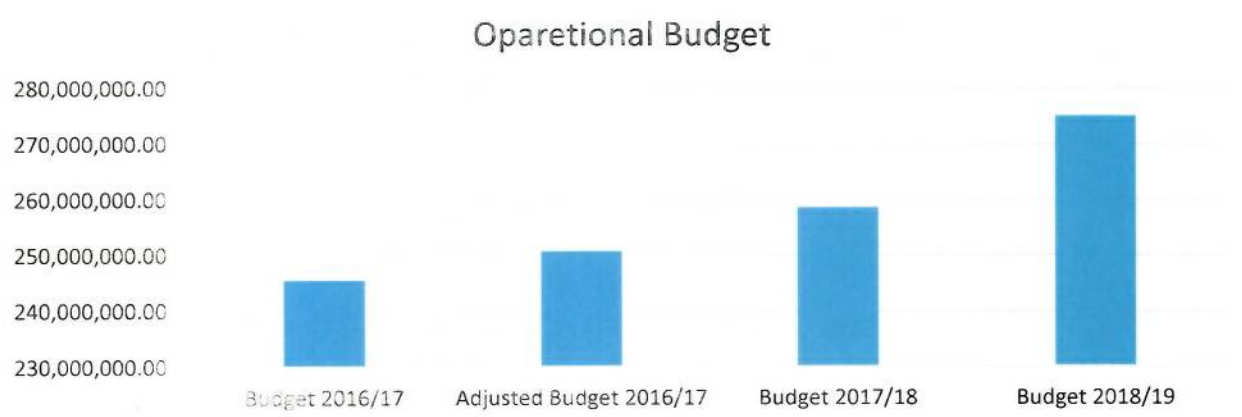
- Revenue on outstanding debtors has also increased by R2.3 Million due to non-payment of municipal accounts.

However other revenue sources has decreased based on six month performance:

- Service charges on electricity has been reduced by R8 Million
- Service charges on refuse has been reduced by R48 Thousand.
- Rental of facilities and equipment has been reduced by R66 Thousand.
- Fines, Agencies services and licencing and permits has slightly been deduced also based on six mount performance.

The funding for 2017/18 and 2018/19 are higher than the current and adjusted budget mainly due to conditional capital grants increasing every financial year.

Operational expenditure



Description	Budget Year 2016/17		Budget Year +1 2017/18	Budget Year +2 2018/19
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Expenditure By Type				
Employee related costs	70 709 750.82	73 121 629.35	74 952 335.87	79 449 476.02
Remuneration of councillors	11 663 148.02	11 663 148.02	12 362 936.90	13 104 713.12
Debt impairment	7 314 000.00	7 314 000.00	7 752 840.00	8 218 010.40
Depreciation & asset impairment	44 944 000.00	44 944 000.00	47 640 640.00	50 499 078.40
Finance charges	797 980.72	397 980.72	845 859.56	896 611.14
Bulk purchases	29 355 062.61	29 355 062.61	31 566 492.18	33 460 481.71
Other materials	13 093 442.82	10 488 741.13	13 879 049.39	14 711 792.35
Contracted services	8 820 679.00	13 195 679.00	9 190 919.74	9 742 374.92
Transfers and grants		2 469 786.66		
Other expenditure	58 807 897.16	57 754 767.04	60 421 983.87	65 007 943.32
Loss on disposal of PPE		-		
Total Expenditure	245 505 961.15	250 704 794.53	258 613 057.52	275 090 481.39

The operational budget was initially budgeted for R254.5 Million and has been adjusted upward to R250.7 Million. The increase of R4.4 Million is due to the following reasons:

Employee related cost

- Employee related cost has increased by R2.4 Million as a results of transferring EPWP and MIG salaries related expenditure from general expenditure to salaries budget.

Contracted services

- Contracted services has also increased many as a results of mSCOA project.

However the following operational expenditure has decreased:

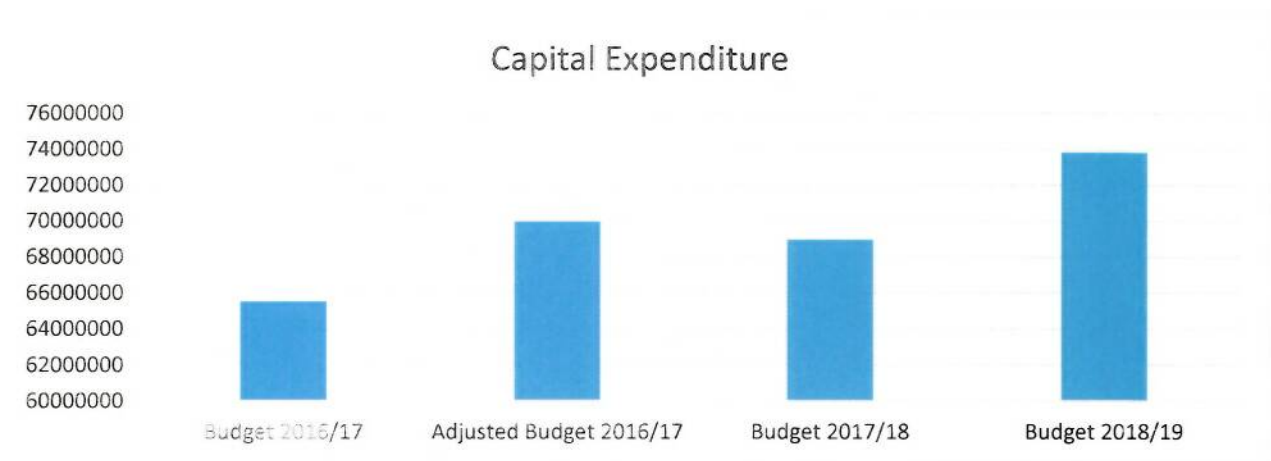
Other material

- Other material has decreased by R2.6 Million as a results of transferring purchases of commuter expenditure to capital budget.

Other Expenditure

- Other expenditure has slightly decreased manly as a results of separating transfers and grants expenditure as a separate line item.

Capital expenditure



Description	Budget Year 2016/17		Budget Year +1 2017/18	Budget Year +2 2018/19
	Original Budget	Adjusted Budget	Adjusted Budget	Adjusted Budget
Capital expenditure - Vote				
Vote 1 - EXECUTIVE AND COUNCIL	800 000.00	900 000.00	-	-
Vote 4 - CORPORATE SERVICES MANAGEMENT	971 600.00	1 038 000.00	1 029 896.00	1 091 689.76
Vote 5 - COMMUNITY SERVICES MANAGEMENT	6 094 000.00	5 010 000.00	6 459 640.00	6 847 218.40
Vote 6 - TECHNICAL SERVICES	56 842 357.50	62 858 019.40	60 599 878.95	64 993 131.69
Vote 7 - PLANNING & ECONOMIC DEVELOPMENT	800 000.00	120 000.00	848 000.00	898 880.00
Total Capital Budget	65 507 957.50	69 926 019.40	68 937 414.95	73 830 919.85

The original capital budget was R65.5 Million which was adjusted upward by R69.9 Million. The increase of R4.4 Million is due to the following reasons:

- Technical services has receive a rollover of R8.4 Million of mohlalaotwane internal street project hence an increase in their capital budget.
- Planning and economic development has decreased because of shifting R800 Thousand of building office space to next financial year.
- Corporate services has increased mainly as a results of shifting expenditure initially budgeted as operational instead of capital (Purchase of computer expenditure)
- Community services has decreased also as a results of reclassification. Leaner's license software were transferred from Capital to operational expenditure.

Capital budget for 2017/18 financial year shows a decrease because in 2016/17 adjustment budget there was a rollover from MIG amounting to R8.4 Million.

4. Adjustment budget tables

a. Table B1-Adjustment budget summary

- The table provides an overview of the amounts on adjustment budget approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Table B1 is a budget summary and provides a concise overview of the Municipality budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
- Table B1 is a budget summary and provides a concise overview of the Municipality budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance). *(See attached B Schedule and executive summary for further explanation)*

b. Table B2-Adjustment budget financial performance (Revenue and expenditure by standard classification)

- Table B2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. *).(See attached B Schedule and executive summary for further explanation)*

c. Table B3-Adjustment budget financial performance (Revenue and expenditure by municipal vote)

- Table B3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. *).(See attached B Schedule and executive summary for further explanation)*

d. Table B4-Adjustment budget financial performance (Revenue and expenditure)

- This table summarises income and expenditure by type. *(See attached B Schedule and executive summary for further explanation)*

e. Table B5-Adjustment capital expenditure budget by vote and funding

- Table B5 shows a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to

fund the capital budget, including information on capital transfers from national and provincial departments.).(See attached B Schedule and executive summary for further explanation)

f. Table B6-Adjustment budget financial position

- Table B6 shows a good financial management practice, and improves of the impact of the budget on the statement of financial position.
- Movements on Capital budget and recent unbundling of community asset has yield an impact on our financial position. The net assets is R976 Million. See attached B Schedule

g. Table B7-Adjustment budget cash flow

- The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
- The Budgeted cash flow show a favorable closing balance which clearly indicate that the municipality will be able to finance the adjustment budget. The municipality has a positive/favourable cash flow balance of R97 Million during adjustment budget. See attached B Schedule

h. Table B8-Cash back reserves/Accumulated surplus reconciliation

- This table provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

i. Table B10-Basic service delivery measurement

- This table proves an overview of service delivery levels for each main Service
- The following services is not offered by Ephraim Mogale Local municipality hence there are no inputs
 - (a) Water (Sekhukhune District Municipality)
 - (b) Sanitation (Sekhukhune District Municipality)

5. Adjustments to budget assumption

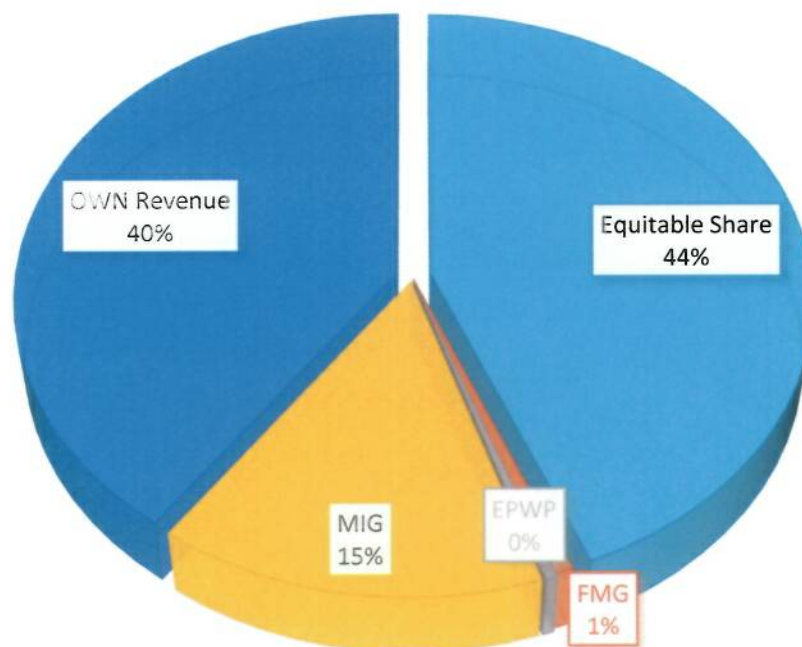
- The adjustment budget was done in terms of MFMA and municipal budget reporting regulation. This budget was done in line with the mid-year budget assessment of the municipality and projections were based on the trend of actual figures for the six month of the financial year.
- Budgets adjustment was prepared in an environment of uncertainty and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year.
- We have also look at the following factors
 - (a) Economic climate
 - (b) Poverty levels
 - (c) Inflation
 - (d) Service delivery cost increases
 - (e) Increase of staff costs and demands

6. Adjustments to budget funding

The projected funding on the adjustment budget for 2016/2017 financial year is R268 million while the original budget was R263 Million

Adjustment budget has been funded by the following:

FUNDING OF ADJUSTMENT BUDGET 2016/2017



Addustment Budget Funding 2016/2017	Budget Year 2016/17		%
	Original Budget	Adjusted Budget	
Equitable Share	117 556 000.00	117 556 000.00	0%
FMG	1 810 000.00	1 810 000.00	0%
EPWP	1 258 000.00	1 258 000.00	0%
MIG	31 917 000.00	40 324 309.40	26%
OWN Revenue	110 546 734.02	107 424 504.53	-3%
	263 087 734.02	268 372 813.93	2%

The 26% increase on grant is as a results of MIG roll over of R8.4 Million. A decrease of 3% is mainly caused services charges on electricity and refuse which were based on six month actual.

7. Adjustments to expenditure on allocations and grant programmes

The only adjustment on Grant was a rollover from MIG of R8.4 Million

8. Adjustments to allocation and grants made by the municipality

The municipality has budgeted an amount of R2 469 787 in the 2016/2017 adjustment budget.

- Community bursary = R850 000
- Staff bursary =R318 000
- Free basic electricity =R1 275 106
- Burial =R26 680

9. Adjustments to councilor's allowance and employee benefits

- Salaries has increased by R2.4 Million as a results of transferring EPWP and MIG salaries related expenditure from general expenditure to salaries budget

10. Adjustments to service delivery and budget implementation plan

- The monthly and quarterly service delivery targets and performance indicators will be revised to correspond with the adjustment budget.

11. Adjustment to capital expenditure

As already mentioned in the executive summary; the capital budget was adjusted upward from R 65.5 Million to R 69.9 Million.

The Capital details are shown in the following tables:

- Supporting Table SB16 Adjustments Budget - monthly capital expenditure (municipal vote)
- Supporting Table SB17 Adjustments Budget - monthly capital expenditure (standard classification)
- Supporting Table SB18a Adjustments Budget - capital expenditure on new assets by asset class
- Supporting Table SB18b Adjustments Budget - capital expenditure on renewal of existing assets by asset class
- Supporting Table SB18c Adjustments Budget - expenditure on repairs and maintenance by asset class
- Supporting Table SB19 List of capital programmes and projects affected by Adjustments Budget



EPHRAIM MOGALE LOCAL MUNICIPALITY

QUALITY CERTIFICATE

I, **Mathebela MM**, the municipal manager of **Ephraim Mogale Local Municipality**, hereby certify that the adjustment budget and supporting documentation for 2016/2017 have been prepared in accordance with the Municipal Finance Management Act and the Regulations made under the Act, and that the adjustment budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Print Name : Mathebela MM

Municipal manager of : **Ephraim Mogale Local Municipality (Lim471)**

Signature

Date

15/02/17