

**ITEM 13****BUDGET AND TREASURY OFFICE: 2021/2022 FINAL ADJUSTMENT  
BUDGET****5/1****PURPOSE**

The purpose of this report is to submit the adjustments on 2021/2022 MTREF Budget to the Council for consideration and approval.

**INTRODUCTION**

Section 28 of the Municipal Finance Management Act, 2003 (MFMA) allows a municipality to revise its approved annual budget through an adjustment budget.

- 1) A municipality may revise an approved annual budget through an adjustments budget.
- 2) 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 programmes already budgeted for;
  - c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
  - d) may authorise the utilisation of projected savings in one vote towards spending under another vote;
  - 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 projected roll-overs when the annual budget for the 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.
- 3) An adjustments budget must be in a prescribed form.
- 4) 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.

- 5) When an adjustments budget is tabled, it must be accompanied by-
  - a) an explanation 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; and
  - d) any other supporting documentation that may be prescribed.
- 6) Municipal tax and tariffs may not be increased during a financial year.
- 7) Sections 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 adjustments budget.

Section 16(3) provides that budget in each sphere of government must contain

- a) estimates of revenue and expenditure, differentiating between capital and current expenditure;
- b) proposals of financing any anticipated deficit for the period which they apply; and
- c) an indication of intentions regarding borrowings and other forms of public liability that will increase public debt during the ensuing year.

## **DISCUSSION**

In terms of Municipal Finance Management Act, MFMA budget circulars and the municipal compliance calendar, annual adjustment budget is expected to be tabled to Council by 28 February every year.

The Municipal Finance Management Act, MFMA budget circular 108, which was issued on 8 March 2021, guides municipalities with the budget process.

## **FINANCIAL PERSPECTIVE**

No financial implications

## **ANNEXURE**

Budgeting is central to the process of prioritizing for service delivery and the management of the functions of the WRDM.

The municipality has attached the **revised funding budget plan** as annexure to the item.

***RECOMMENDATIONS THAT:***

1. In terms of the Municipal Finance Management Act, 2003 (Act no 56 of 2003); Municipal Council should approve 2021/22 Annual Adjustments Budget of West Rand District Municipality:
  - 1.1 That the operational expenditure budget be adjusted from R255,854 million to R259,240 million.
  - 1.2 That the operational revenue budget be adjusted from R258,894 million to R262,171 million.
  - 1.3 That the capital revenue budget to remain at R9,561 million.
  - 1.4 That the capital expenditure budget be adjusted from R7,600 million to R6,000 million.
  
- 2 The final adjustment budget together with the revised budget plan be submitted to National Treasury as well as Gauteng Provincial Treasury in terms of Section 28(7) and Section 24(3) of the MFMA.

**1R,1P,1A,1S**

1 REGION, 1 PLAN, 1 ACTION  
1 SYSTEM



REPOSITIONING THE **WEST RAND** FOR A BETTER LIFE FOR ALL



West Rand  
District Municipality

# WEST RAND DISTRICT MUNICIPALITY

2021/2022 Adjustment Budgets Report

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## 1. Purpose

To seek approval from the Council on the adjustments proposed to the 2021/2022 annual Budget.

## 2. Legislative Background

Section 28 of the Municipal Finance Management Act, 2003 (MFMA) allows a municipality to revise its approved annual budget through an adjustment budget.

- 8) A municipality may revise an approved annual budget through an adjustments budget.
- 9) 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 programmes already budgeted for;
  - c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
  - d) may authorise the utilisation of projected savings in one vote towards spending under another vote;
  - 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 projected roll-overs when the annual budget for the 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.
- 10) An adjustments budget must be in a prescribed form.
- 11) 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.
- 12) When an adjustments budget is tabled, it must be accompanied by-
  - a) an explanation 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; and

- d) any other supporting documentation that may be prescribed.
- 13) Municipal tax and tariffs may not be increased during a financial year.
- 14) Sections 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 adjustments budget.

Section 241(1) of the Constitution of the Republic of South Africa (Constitution) provides that an act of Parliament must provide for the equitable division of revenue raised nationally among the national, provincial and local spheres of government. Section 214(2) of the Constitution provides that the Act referred to in subsection (1) may be enacted only after the provincial governments, organized local government and the Financial and Fiscal Commission (FFC) have been consulted, and any recommendations of the Commission have been taken into consideration, and must take into account-

- k) The national interest;
- l) Any provision that must be made in respect of the national debt and other obligations;
- m) The needs and interests of the national government, determined by objective criteria;
- n) The need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them;
- o) The fiscal capacity and efficiency of the provinces and municipalities;
- p) Developmental and other needs of provinces, local government and municipalities;
- q) Economic disparities within and among the provinces;
- r) Obligations of the provinces and municipalities in terms of national legislation;
- s) The desirability of stable and predictable allocations of revenue shares; and
- t) The need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.

Section 16(3) provides that budget in each sphere of government must contain-

- d) Estimates of revenue and expenditure, differentiating between capital and current expenditure;
- e) Proposals of financing any anticipated deficit for the period which they apply; and
- f) An indication of intentions regarding borrowings and other forms of public liability that will increase public debt during the ensuing year.



### 3. Executive Summary

In every financial year of the municipality is expected that a performance assessment (review) with regard to the implementation of the agreed IDP strategic objectives and the service delivery programmes as outlined in our SDBIP must be done after every quarter.

After quarter assessments has been done both on financial and non-financial report must be compiled as in accordance to section 72 of the Municipal Finance Management Act (MFMA) to assess whether is it necessary for the municipality to adjust or review its budget (Adjustment Budget) or not.

In our case we are assessing our performance on a quarterly basis through an SDBIP and quarterly financial reports. As a result there will be a need to review our approved budget and though processes of the Adjustment Budget.

The Mid-Year report of December 2021 and its SDBIP were used to review whether we have spent and collected accordingly and whether we have implemented the approved programmes.

The proposed 2021/22 MTREF:

- Total revenue is **R252,520 million** (excl. capital)
- The total expenditure is **R259,240 million**
- And total capital expenditure of **R6,000 million**

### 4. Overview of Budget Assumptions

The recent CPIX was taken into consideration when determining the inflationary increase in the 2021/2022 fiscal year and the outer years:

| Table 1: Macroeconomic performance and projections, 2020 - 2025 |         |          |          |         |         |
|---|---------|----------|----------|---------|---------|
| Fiscal year   | 2020/21 | 2021/22  | 2022/23  | 2023/24 | 2024/25 |
| Actual Estimate Forecast  | Actual  | Estimate | Forecast |         |         |
| CPI Inflation   | 2.9%    | 4,9%     | 4.0%     | 4.4%    | 4.5%    |
| Source: Medium Term Budget Policy Statement 2021.               |         |          |          |         |         |

|                               |                             |
|-------------------------------|-----------------------------|
| <b>Value Added Tax (VAT):</b> | Unchanged at 15%            |
| <b>Prime Lending Rate:</b>    | Changed from 7.75% to 7.25% |
| <b>Repo Rate:</b>             | Decreased from 4.2% to 4.3  |

#### 4.1 Budget Allocations per MSCOA

The West Rand District Municipality and its entity have compiled the adjusted budget in terms of mSCOA and has complied with the requirements of mSCOA version 6.5 as published by National Treasury for implementation on the 2021/22 MTREF.

#### 4.2 Summary of the Budget

Table 1: Adjustments Budget Summary 28 February 2022

| Adjustment Budget Summary   |     |                     |               |               |                |                      |                      |
|---|-----|---------------------|---------------|---------------|----------------|----------------------|----------------------|
| Description   | Ref | Budget Year 2021/22 |               |               |                |                      |                      |
|   |     | Original Budget     | Other Adjusts | Total Adjusts | Adjusted       | Budget Year +2022/23 | Budget Year +2022/24 |
| <b>R thousands</b>  |     |                     |               |               |                |                      |                      |
| <b>Financial Performance</b>  |     |                     |               |               |                |                      |                      |
| Interest earned - external investments  |     | 750                 | 553           | 553           | 1,303          | 1,355                | 1,414                |
| Transfers and subsidies   |     | 238,143             | 347           | 347           | 238,490        | 248,030              | 258,943              |
| Other revenue   |     | 10,350              | 2,378         | 2,378         | 12,728         | 13,237               | 13,819               |
| <b>Total Revenue (excluding capital transfers and contributions)</b>                          |     | <b>249,243</b>      | <b>3,277</b>  | <b>3,277</b>  | <b>252,520</b> | <b>262,621</b>       | <b>274,176</b>       |
| <b>Expenditure By Type</b>  |     |                     |               |               |                |                      |                      |
| Employee related costs  |     | 196,249             | -             | -             | 196,249        | 204,099              | 213,080              |
| Remuneration of councillors   |     | 13,931              | -             | -             | 13,931         | 14,488               | 15,126               |
| Depreciation & asset impairment   |     | 4,000               | (0)           | -             | 4,000          | 4,160                | 4,343                |
| Finance Charges   |     | -                   | 747           | 747           | 747            | 777                  | 811                  |
| Other materials   |     | 220                 | -             | -             | 220            | 229                  | 239                  |
| Contracted services   |     | 8,961               | 3,295         | 3,295         | 12,255         | 12,746               | 13,307               |
| Transfers and subsidies   |     | 11,364              | (1,163)       | (1,163)       | 10,201         | 10,609               | 11,076               |
| Other expenditure   |     | 21,129              | 507           | 507           | 21,636         | 22,502               | 23,492               |
| <b>Total Expenditure</b>  |     | <b>255,854</b>      | <b>3,386</b>  | <b>3,386</b>  | <b>259,240</b> | <b>269,610</b>       | <b>281,473</b>       |
| <b>Surplus/Deficit</b>  |     | <b>(6,611)</b>      | <b>(108)</b>  | <b>(108)</b>  | <b>(6,720)</b> | <b>(6,989)</b>       | <b>(7,296)</b>       |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) |     | 9,651               | -             | -             | 9,651          | 10,037               | 10,479               |
| <b>Surplus/Deficit for the year</b>   |     | <b>3,040</b>        | <b>(108)</b>  | <b>(108)</b>  | <b>2,931</b>   | <b>3,048</b>         | <b>3,183</b>         |

## DC48 West Rand - Summary of the Adjustment Budget Statement - February 2022

| Description  | Ref | Budget Year 2021/2022 |                 |                 |                 |                      |                      |
|--|-----|-----------------------|-----------------|-----------------|-----------------|----------------------|----------------------|
|  |     | Original Budget       | Other Adjusts   | Total Adjusts   | Adjusted        | Budget Year +2022/23 | Budget Year +2022/24 |
| <b>R thousands</b>   | 1   |                       |                 |                 |                 |                      |                      |
| Net cash from/used operating activities                      |     | 6,800                 | 616             | 616             | 7,416           | 7,713                | 8,052                |
| Net cash from/used investing activities                      |     | (6,800)               | 800             | 800             | (6,000)         | (6,240)              | (6,515)              |
| Net cash from/used financing activities                      |     | -                     |                 |                 |                 | -                    | -                    |
| Cash/cash equivalents at month/year end:                     |     | -                     | 1,416           | 1,416           | 2,739           | 1,473                | 1,537                |
| <b>Capital Expenditure - Functional Classification</b>       |     |                       |                 |                 |                 |                      |                      |
| <i>Governance and administration</i>                         |     | 600                   | (100)           | (100)           | 500             | -                    | -                    |
| <i>Community and public safety</i>                           |     | 7,000                 | (1,500)         | (1,500)         | 5,500           | -                    | -                    |
| <b>Total Capital Expenditure - Functional Classification</b> | 3   | <b>7,600</b>          | <b>(1,600)</b>  | <b>(1,600)</b>  | <b>6,000</b>    | -                    | -                    |
| <b>Funded by:</b>  |     |                       |                 |                 |                 |                      |                      |
| Transfers recognised - capital                               |     | 7,000                 | (1,500)         | (1,500)         | 5,500           | -                    | -                    |
| Internally generated funds                                   |     | 600                   | (100)           | (100)           | 500             | -                    | -                    |
| <b>Total Capital Funding</b>                                 |     | <b>7,600</b>          | <b>(1,600)</b>  | <b>(1,600)</b>  | <b>6,000</b>    | -                    | -                    |
| <b>Financial Position</b>                                    |     |                       |                 |                 |                 |                      |                      |
| Total Assets   |     | 87,057                | (6,331)         | (6,331)         | 80,726          | 83,955               | 87,649               |
| Total Liabilities  |     | 141,204               | 8,029           | 8,029           | 149,233         | 152,706              | 159,425              |
| <b>TOTAL COMMUNITY WEALTH/EQUITY</b>                         | 0   | <b>(54,147)</b>       | <b>(14,360)</b> | <b>(14,360)</b> | <b>(68,507)</b> | <b>(70,333)</b>      | <b>(70,682)</b>      |

The computation of the adjusted budget summary has taken into account both income and expenditure according to the Municipality's mid-year figures. Therefore, the current budget indicates that the municipality should adopt better financial management decisions in order to provide for functions that are either funded or under-funded to reduce the budget deficit and to improve overall liquidity of the municipality until the situation is resolved

### 4.3 Financial Performance

Table 2: Adjustments Budgeted Financial Performance by Revenue and Expenditure type  
Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - 28 February 2022

| Revenue By Source and Expenditure   |     |                     |               |               |                |                      |                      |
|---|-----|---------------------|---------------|---------------|----------------|----------------------|----------------------|
| Description   | Ref | Budget Year 2021/22 |               |               |                |                      |                      |
|   |     | Original Budget     | Other Adjusts | Total Adjusts | Adjusted       | Budget Year +2022/23 | Budget Year +2022/24 |
| <b>R thousands</b>  |     |                     |               |               |                |                      |                      |
| <b>Revenue By Source</b>  |     |                     |               |               |                |                      |                      |
| Rental of facilities and equipment  |     | 2,067               | 124           | 124           | 2,190          | 2,278                | 2,378                |
| Interest earned - external investments  |     | 750                 | 553           | 553           | 1,303          | 1,355                | 1,414                |
| Interest earned - outstanding debtors   |     | 450                 | (255)         | (255)         | 195            | 203                  | 212                  |
| Licences and permits  |     | 400                 | (200)         | (200)         | 200            | 208                  | 217                  |
| Reversal on impairment of investment  |     |                     | 5,328         | 5,328         | 5,328          | 5,541                | 5,785                |
| Transfers and subsidies   |     | 238,143             | 347           | 347           | 238,490        | 248,030              | 258,943              |
| Other revenue   |     | 7,434               | (2,619)       | (2,619)       | 4,814          | 5,007                | 5,227                |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) |     | 9,651               | -             | -             | 9,651          | 10,037               | 10,479               |
| <b>Total Revenue including capital transfers and contributions)</b>                           |     | <b>258,894</b>      | <b>3,277</b>  | <b>3,277</b>  | <b>262,171</b> | <b>272,658</b>       | <b>284,655</b>       |
| <b>Expenditure By Type</b>  |     |                     |               |               |                |                      |                      |
| Employee related costs  |     | 196,249             | -             | -             | 196,249        | 204,099              | 213,080              |
| Remuneration of councillors   |     | 13,931              | -             | -             | 13,931         | 14,488               | 15,126               |
| Depreciation & asset impairment   |     | 4,000               | (0)           | -             | 4,000          | 4,160                | 4,343                |
| Finance Charges   |     | -                   | 747           | 747           | 747            | 777                  | 811                  |
| Other materials   |     | 220                 | -             | -             | 220            | 229                  | 239                  |
| Contracted services   |     | 8,961               | 3,295         | 3,295         | 12,255         | 12,746               | 13,307               |
| Transfers and subsidies   |     | 11,364              | (1,163)       | (1,163)       | 10,201         | 10,609               | 11,076               |
| Other expenditure   |     | 21,129              | 507           | 507           | 21,636         | 22,502               | 23,492               |
| <b>Total Expenditure</b>  |     | <b>255,854</b>      | <b>3,386</b>  | <b>3,386</b>  | <b>259,240</b> | <b>269,610</b>       | <b>281,473</b>       |
| <b>Surplus/Deficit</b>  |     | <b>3,040</b>        | <b>(108)</b>  | <b>(108)</b>  | <b>2,931</b>   | <b>3,048</b>         | <b>3,183</b>         |

- 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 services are provided sustainably, economically and equitably to all communities.

- It is our view that the 2021/22 mid-year should be approached with realism and a tightening fiscal discipline and we further believe that we should guard against unrealistic demands and concentrate on our key role of uplifting our communities in the West Rand Region as a whole.

## **Revenue**

Total operational revenue increased from **R258,894 million** to **R262,171 million** and capital revenue **remained at R9, 651 million**. The reasons for the significant adjustments are as follows:

- The grants and transfers were budgeted as per the gazette published by Gauteng Provincial Treasury were budgeted for the 2021/22 financial year.
- There are additional funding and rollovers on gazetted conditional grants which will be detailed on grant table.
- The rental of facilities will be adjusted upward due to over collections from the past six months.
- The increase on external investment was due to call account of R45,528 million that is ring-fencing conditional grants while realising interest income. The fixed investment account of R9,000 million has an investment of R7,000 million for three months.
- All other downwards and upwards adjustments on revenue was informed by mid-year performance.
- The reversal of impairment on investments relates of R5,328 million to the first VBS bank first distribution account based on the claim that was lodged against the liquidator through a high court. VBS investments of R76 million were impaired in 2018/19 financial year following the VBS bank going under the curatorship.

### Capital revenue

- The capital revenue amounts to R9,651 million to fund capital project. The capital revenue is not affected by the adjustments, however the capital project will be adjusted downwards to prioritize the maintenance of the capital asset.
- The table 5 represents the capital expenditure and funding per functional classification

Amounts included in other revenue are shown below:

| <b>Description</b>  | <b>Original</b> | <b>Adjustments</b> | <b>Adjusted</b> | <b>Reasons for adjustments</b>                |
|---------------------|-----------------|--------------------|-----------------|---|
|                     | <b>R'000</b>    | <b>R'000</b>       | <b>R'000</b>    |   |
| Vat Recovery        | 4,684           | (1,082)            | 3,602           | Based on past trends and 6 months performance |
| Fire prevention fee | 2,500           | (1,511)            | 989             | Under collection                              |
| Donaldson dam fees  | 250             | 16                 | 234             | Low collections                               |
| <b>Total</b>        | <b>7,434</b>    | <b>(2,609)</b>     | <b>4,815</b>    |   |

### Expenditure

The municipality's operational expenditure has increased from **R255,854** million to **R259,240** million for the 2021/22 financial year. The reasons for the significant adjustments are as follows:

- The other expenditure was adjusted upwards based on the past trend and additional repairs and maintenance. It was adjusted from R21,129 million to R21,636 million.

- The expenditure on HIV/Aids grant had a rollover of R1,163 million to be considered on the available transfers.
- The contracted services had a factual negative impact that resulted on an upwards increase from R8,961 million to R12,255 million. There were litigations where Phungo service provider took the municipality to court with a total claim of R1,700 million. The expenditure was not guaranteed to incur in this current financial as it was reported as contingency liability.
- Another additional increase on contracted services is R1,000 million for the repairs maintenance of fire equipment from Public safety. It will be funded by project savings from Fire grant.

A detailed table listing the adjusted items for contracted services and other expenditure has been presented below.

**The contracted services for the 2021/22 financial year have been adjusted as follows:**

| Description                                   | Budget<br>R'000 | Adjustments<br>R'000<br>00000 | Adjusted<br>R'000<br>000 | Reasons for adjustments   |
|---|-----------------|-------------------------------|--------------------------|---|
| Security Services                             | 2 950           | -                             | 2 950                    |   |
| Rural Roads Asset Management (RRAMS)          | 2,651           | -                             | 2,651                    | Professional services for conditional grant   |
| Actuaries                                     | 22              |                               | 22                       |   |
| Consultants and professional services         | 1,192           |                               | 1 ,192                   | The amount of R192 mil professional fees including asset verification and R1 mil is for GRAP projects for the integration of asset management systems |
| Repairs and maintenance of unspecified assets |                 | 1,000                         | 1,000                    | Project savings from acquisition of fire engines is reprioritised to fund repairs and maintenance of fire engines and relevant fire equipment.        |
| Legal fees                                    | 1,725           | 2,336                         | 3,061                    | Under estimated due to unknown outcome. The adjusted figure is based on the past performance  |
| Audit committee                               | 210             | -                             | 210                      |   |
| Burial services                               | 211             | (41)                          | 170                      | Based on the previous performance the expenditure was overstated  |

### The other expenditure items for the 2021/22 financial year adjustments

| Description                                   | Budget<br>R'000 | YTD<br>Actual | Adjust<br>ments<br>R'000 | Adjus<br>ted<br>R'000 | Reasons for<br>adjustments   |
|---|-----------------|---------------|--------------------------|-----------------------|--|
| Advertising                                   | 300             | 95            | (109)                    | 191                   | Over estimated   |
| Bank charges<br>facilities                    | 60              | 30            | -                        | 60                    | The spending is<br>at par  |
| Communication                                 | 1,460           | 149           | -                        | 1,460                 |  |
| External Audit fees                           | 3,400           | 999           |                          | 3400                  |  |
| External computer<br>services                 | 2,864           | 1,955         | 1,090                    | 3 954                 | The over-<br>spending is due<br>to computer<br>demand                      |
| Lease of furniture<br>and office<br>equipment | 1,120           | 48            | -                        | 1,120                 | Despite low<br>spending leases<br>are reviewed<br>yearly at a flat<br>rate |
| Insurance<br>underwriting                     | 2,515           | 2,316         |                          | 2,515                 |  |
| Municipal services                            | 4,200           | 2,298         | -                        | 4,200                 | The expenditure<br>is at average, no<br>adjustments<br>needed              |
| Membership fees                               | 1,890           | -             |                          | ,1890                 |  |
| Travel subsistence                            | 50              | -             | -                        | 50                    |  |
| Uniform and<br>protective clothing            | 1,100           | 26            | (474)                    | 500                   | Low spending   |
| Vehicle tracking                              | 100             |               |                          | 100                   |  |
| Fuel  | 800             | 365           | -                        | 800                   |  |
| Workman's<br>Compensation fund                | 1,270           | -             | -                        | 1,270                 |  |

#### 4.4 Financial Performance

Table 3: Adjustments Budgeted Financial Performance by Municipal Vote- 28  
February 2022



Table B3 Adjustments Budget Financial Performance (revenue & expenditure by municipal vote)

| Vote Description                                  | Ref | Budget Year 2021/2022 |               |               |                |                      |                      |
|---|-----|-----------------------|---------------|---------------|----------------|----------------------|----------------------|
|   |     | Original Budget       | Other Adjusts | Total Adjusts | Adjusted       | Budget Year +2022/23 | Budget Year +2022/24 |
| <b>R thousands</b>                                |     |                       |               |               |                |                      |                      |
| <b>Revenue by Vote</b>                            | 0   |                       |               |               |                |                      |                      |
| Vote 1 - Corporate Governance                     |     | 9,651                 | -             | -             | 9,651          | 10,037               | 10,479               |
| Vote 2 - Municipal Manager & Support              |     | 13,901                | -             | -             | 13,901         | 14,457               | 15,093               |
| Vote 3 - Corporate Services                       |     | 30,252                | 21            | 21            | 30,274         | 31,485               | 32,870               |
| Vote 4 - Budget & Treasury Office                 |     | 23,403                | 4,993         | 4,993         | 28,396         | 29,532               | 30,832               |
| Vote 5 - Health & Social Development              |     | 46,056                | (200)         | (200)         | 45,856         | 47,690               | 49,788               |
| Vote 6 - Public safety                            |     | 112,214               | (1,511)       | (1,511)       | 110,702        | 115,130              | 120,196              |
| Vote 7 - Regional planning & Economic Development |     | 23,417                | (26)          | (26)          | 23,391         | 24,327               | 25,397               |
| <b>Total Revenue by Vote</b>                      | 2   | <b>258,894</b>        | <b>3,277</b>  | <b>3,277</b>  | <b>262,171</b> | <b>272,658</b>       | <b>284,655</b>       |
| <b>Expenditure by Vote</b>                        |     |                       |               |               |                |                      |                      |
| Vote 1 - Corporate Governance                     |     | 24,496                | -             | -             | 24,496         | 25,476               | 26,596               |
| Vote 2 - Municipal Manager & Support              |     | 15,964                | -             | -             | 15,964         | 16,603               | 17,333               |
| Vote 3 - Corporate Services                       |     | 35,586                | 2,647         | 2,647         | 38,234         | 39,763               | 41,513               |
| Vote 4 - Budget & Treasury Office                 |     | 20,734                | 1,467         | 1,467         | 22,201         | 23,090               | 24,105               |
| Vote 5 - Health & Social Development              |     | 42,816                | (1,603)       | (1,603)       | 41,214         | 42,862               | 44,748               |
| Vote 6 - Public safety                            |     | 96,065                | 869           | 869           | 96,934         | 100,811              | 105,247              |
| Vote 7 - Regional planning & Economic Development |     | 20,193                | 5             | 5             | 20,198         | 21,005               | 21,930               |
| <b>Total Expenditure by Vote</b>                  | 2   | <b>255,854</b>        | <b>3,386</b>  | <b>3,386</b>  | <b>259,240</b> | <b>269,610</b>       | <b>281,473</b>       |
| <b>Surplus/ (Deficit) for the year</b>            | 2   | <b>3,040</b>          | <b>(108)</b>  | <b>(108)</b>  | <b>2,931</b>   | <b>3,049</b>         | <b>3,183</b>         |

- The adjustments were per function was informed by the performance reported for the past six months
- The recovery of impairment loss has increased the revenue in Budget and Treasury office.
- Corporate services received an additional conditional that and other revenue that was not anticipated which resulted to an upwards increase on their revenue and expenditure.
- The roll over under Health function had a negative impact on their projections as it was not anticipated to be paid back to provincial government

## 4.5 Grants and Subsidies

Table 4: Adjustments Budgeted Transfers and Grants Receipts

Supporting Table SB7 Adjustments Budget - transfers and grant receipts - 28 February 2022

| DC48 West Rand - Supporting Table SB7 Transfers & Grants- |     |                       |               |               |                 |                      |                      |
|---|-----|-----------------------|---------------|---------------|-----------------|----------------------|----------------------|
| Description   | Ref | Budget Year 2021/2022 |               |               |                 |                      |                      |
|   |     | Original Budget       | Other Adjusts | Total Adjusts | Adjusted budget | Budget Year +2022/23 | Budget Year +2022/24 |
| R thousands   |     |                       |               |               |                 |                      |                      |
| <b>RECEIPTS:</b>  | 1,2 |                       |               |               |                 |                      |                      |
| <b>Operating Transfers and Grants</b>                     |     |                       |               |               |                 |                      |                      |
| <b>National Government:</b>                               |     | <b>224,679</b>        | –             | –             | <b>224,679</b>  | <b>233,666</b>       | <b>243,947</b>       |
| Local Government Equitable Share                          |     | 45,139                | –             | –             | 45,139          | 46,945               | 49,010               |
| RSC Levy Replacement                                      |     | 177,450               | –             | –             | 177,450         | 184,548              | 192,668              |
| Finance Management  |     | 1,000                 | –             | –             | 1,000           | 1,040                | 1,086                |
| EPWP Incentive  |     | 1,090                 | –             | –             | 1,090           | 1,134                | 1,183                |
| <b>Provincial Government:</b>                             |     | <b>12,364</b>         | (1,163)       | (1,163)       | <b>11,201</b>   | <b>11,649</b>        | <b>12,162</b>        |
| Health Subsidy  |     | 11,364                | (1,163)       | (1,163)       | 10,201          | 10,609               | 11,076               |
| GRAP 17   |     | 1,000                 | –             | –             | 1,000           | 1,040                | 1,086                |
| <b>Other grant providers:</b>                             |     | <b>1,100</b>          | 1,510         | 1,510         | <b>2,610</b>    | <b>2,714</b>         | <b>2,834</b>         |
| LG SETA   |     | 1,100                 | 1,510         | 1,510         | 2,610           | 2,714                | 2,834                |
| <b>Total Operating Transfers and Grants</b>               | 5   | <b>238,143</b>        | 347           | 347           | <b>238,490</b>  | <b>248,030</b>       | <b>258,943</b>       |
| <b>Capital Transfers and Grants</b>                       |     |                       |               |               |                 |                      |                      |
| <b>National Government:</b>                               |     | 2,651                 | –             | –             | 2,651           | 2,757                | 2,878                |
| Rural Roads Asset Management Systems                      |     | 2,651                 | –             | –             | 2,651           | 2,757                | 2,878                |
| <b>Provincial Government:</b>                             |     | 7,000                 | –             | –             | 7,000           | 7,280                | 7,600                |
| Fire Rescue Services                                      |     | 7,000                 | –             | –             | 7,000           | 7,280                | 7,600                |
| <b>Total Capital Transfers and Grants</b>                 | 5   | <b>9,651</b>          | –             | –             | <b>9,651</b>    | <b>10,037</b>        | <b>10,479</b>        |
| <b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>           | 5   | <b>247,794</b>        | 347           | 347           | <b>248,141</b>  | <b>258,067</b>       | <b>269,422</b>       |

- The grants that were affected during the adjustment budget was HIV/AIDS Grants and LG Seta grants.
- The payment of R1,163 million for health subsidy was made to provincial government.
- The additional SETA grant of R1,510 million that was received was not anticipated. The grant is received based on conditional results of skills development.
- The GRAP 17 grant will be utilized to maintain physical asset (PPE) by ensuring that asset registers are maintained and updated in compliance with GRAP standards.

## 4.6 Summary of Capital Budget

Table 5: Adjustments Capital Budget  
DC48 West Rand - Table B7 Adjustments Capital Expenditure by vote and funding- 28  
February 2022

| Capital Expenditure   |     |                     |                |                 |              |
|---|-----|---------------------|----------------|-----------------|--------------|
| Vote Description  | Ref | Budget Year 2021/22 |                |                 |              |
|   |     | Original Budget     | Other Adjusts  | Adjusted Budget |              |
| R thousands   | 1   |                     |                |                 |              |
| <b>Capital Expenditure - Functional Classification</b>  |     |                     |                |                 |              |
| <b><i>Governance and administration</i></b>   |     | 600                 | (100)          | (100)           | 500          |
| Executive and council   |     |                     |                |                 |              |
| Finance and administration  |     | 600                 | (100)          | (100)           | 500          |
| Internal audit  |     |                     |                |                 |              |
| <b><i>Community and public safety</i></b>   |     | 7,000               | (1,500)        | (1,500)         | 5,500        |
| Community and social services   |     |                     |                |                 |              |
| Sport and recreation  |     |                     |                |                 |              |
| Public safety   |     | 7,000               | (1,500)        | (1,500)         | 5,500        |
| Housing   |     |                     |                |                 |              |
| Health  |     |                     |                |                 |              |
| <b>Total Capital Expenditure - Functional Classification</b>  | 3   | <b>7,600</b>        | <b>(1,600)</b> | <b>(1,600)</b>  | <b>6,000</b> |
| <b>Funded by:</b>   |     |                     |                |                 |              |
| National Government   |     |                     |                |                 |              |
| Provincial Government   |     | 7,000               | (1,500)        | (1,500)         | 5,500        |
| Transfers and subsidies - capital (monetary allocations)<br>(National / Provincial Departmental Agencies, Households,<br>Non-profit Institutions, Private Enterprises, Public<br>Corporations, Higher Educational Institutions) |     |                     |                |                 |              |
| <b>Transfers recognised - capital</b>   |     | <b>7,000</b>        | <b>(1,500)</b> | <b>(1,500)</b>  | <b>5,500</b> |
| <b>Borrowing</b>  | 6   | 600                 | (100)          | (100)           | 500          |
| <b>Internally generated funds</b>   |     | 600                 | (100)          | (100)           | 500          |
| <b>Total Capital Funding</b>  |     | <b>7,600</b>        | <b>(1,600)</b> | <b>(1,600)</b>  | <b>6,000</b> |

- The municipality received grant of R7,000 million for fire engines
- The municipality realized projected savings from the capital budget of R1.5 million which will be reprioritized for repairs and maintenance of fire engines and relevant fire equipment.
- The municipality plans to improve its computer equipment by purchasing laptops in order to ensure workflow by employees. The funding for the computer equipment was projected at R600 thousand from internally

generated fund. Due to low revenue collection rate the expenditure was adjusted downwards to R500 thousand.

- These are single year projects, the new estimations for the outer years will be reported on the next budget year.

## 4.7 Cash Flow

Table 6: Adjustments Budget Cash Flow  
DC48 West Rand - Table B7 Adjustments Budget Cash Flows - 28 February 2022

DC48 West Rand - Table B7 Adjustment Budget Statement - Cash Flow February 2022

| Description                                      | Ref | Budget Year 2021/2022 |               |               |                |                      |                      |
|--|-----|-----------------------|---------------|---------------|----------------|----------------------|----------------------|
|  |     | Original Budget       | Other Adjusts | Total Adjusts | Adjusted       | Budget Year +2022/23 | Budget Year +2022/24 |
| <b>R thousands</b>                               | 1   |                       |               |               |                |                      |                      |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>       |     |                       |               |               |                |                      |                      |
| <b>Receipts</b>                                  |     |                       |               |               |                |                      |                      |
| Other revenue                                    |     | 14,350                | (4,771)       | (4,771)       | 9,579          | 9,962                | 10,400               |
| Transfers and Subsidies - Operational            |     | 238,143               | 347           | 347           | 238,490        | 248,030              | 258,943              |
| Transfers and Subsidies - Capital                |     | 9,651                 | -             | -             | 9,651          | 10,037               | 10,479               |
| Interest   |     | 750                   | 748           | 748           | 1,498          | 1,558                | 1,626                |
| <b>Payments</b>                                  |     |                       |               |               |                |                      |                      |
| Suppliers and employees                          |     | (244,730)             | 3,129         | 3,129         | (241,601)      | (251,265)            | (262,321)            |
| Transfers and Grants                             |     | (11,364)              | 1,163         | 1,163         | (10,201)       | (10,609)             | (11,076)             |
| <b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b> |     | <b>6,800</b>          | <b>616</b>    | <b>616</b>    | <b>7,416</b>   | <b>7,713</b>         | <b>8,052</b>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>      |     |                       |               |               |                |                      |                      |
| <b>Receipts</b>                                  |     |                       |               |               |                |                      |                      |
| Proceeds on disposal of PPE                      |     | 800                   | (800)         | (800)         |                |                      |                      |
| Decrease (increase) in non-current receivables   |     |                       |               |               |                |                      |                      |
| Decrease (increase) in non-current investments   |     |                       |               |               |                |                      |                      |
| <b>Payments</b>                                  |     |                       |               |               |                |                      |                      |
| Capital assets                                   |     | (7,600)               | 1,600         | 1,600         | (6,000)        | (6,240)              | (6,515)              |
| <b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b> |     | <b>(6,800)</b>        | <b>800</b>    | <b>800</b>    | <b>(6,000)</b> | <b>(6,240)</b>       | <b>(6,515)</b>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>      |     |                       |               |               |                |                      |                      |
| <b>Receipts</b>                                  |     |                       |               |               |                |                      |                      |
| Short term loans                                 |     | -                     |               |               |                |                      |                      |
| Borrowing long term/refinancing                  |     | -                     |               |               |                |                      |                      |
| Increase (decrease) in consumer deposits         |     | -                     |               |               |                |                      |                      |
| <b>Payments</b>                                  |     |                       |               |               |                |                      |                      |
| Repayment of borrowing                           |     | -                     |               |               |                |                      |                      |
| <b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b> |     | <b>-</b>              |               |               |                | <b>-</b>             | <b>-</b>             |
| <b>NET INCREASE/ (DECREASE) IN CASH HELD</b>     |     | <b>-</b>              | <b>1,416</b>  | <b>1,416</b>  | <b>1,416</b>   | <b>1,473</b>         | <b>1,537</b>         |
| Cash/cash equivalents at beginning:              |     | -                     |               |               | 1,323          | -                    | -                    |
| Cash/cash equivalents at month/year end:         |     | -                     | 1,416         | 1,416         | 2,739          | 1,473                | 1,537                |

- The cash flow statement is adjusted as balanced budget due to financial challenges. The municipality is 90% grant reliant as a result zero projections for cash and cash equivalents by end of the financial year.
- The financial recovery plan is implemented, however it has not achieved its purpose due to cash constraints

## 4.8 Financial Position

Table 7: DC48 West Rand - Table B7 Adjustments Budget Financial Position - 28 February 2022

| DC48 West Rand- Table B6 Adjusted Budget Statement- Financial Position |     |                       |                 |                 |                 |                      |                      |
|--|-----|-----------------------|-----------------|-----------------|-----------------|----------------------|----------------------|
| Description  | Ref | Budget Year 2021/2022 |                 |                 |                 | Budget Year +2022/23 | Budget Year +2022/24 |
|  |     | Original Budget       | Other Adjusts   | Adjustments     | Adjusted        |                      |                      |
| <b>R thousands</b>   | 1   |                       |                 |                 |                 |                      |                      |
| <b>ASSETS</b>  |     |                       |                 |                 |                 |                      |                      |
| <b>Current assets</b>  |     |                       |                 |                 |                 |                      |                      |
| Cash   |     | –                     | 2,739           | 2,739           | 2,739           | 2,849                | 2,974                |
| Call investment deposits   |     | –                     | –               | –               | –               | –                    | –                    |
| Short-term Investments   |     | –                     | –               | –               | –               | –                    | –                    |
| Other debtors  |     | 10,995                | (4,000)         | (4,000)         | 6,995           | 7,275                | 7,595                |
| Inventory  |     | 220                   | 70              | 70              | 290             | 302                  | 315                  |
| <b>Total current assets</b>  |     | <b>11,215</b>         | <b>(1,191)</b>  | <b>(1,191)</b>  | <b>10,024</b>   | <b>10,425</b>        | <b>10,884</b>        |
| <b>Non current assets</b>  |     |                       |                 |                 |                 |                      |                      |
| Long-term receivables  |     | –                     | 255             | 255             | 255             | 265                  | 277                  |
| Investment property  |     | 7,200                 | (900)           | (900)           | 6,300           | 6,552                | 6,840                |
| Property, plant and equipment  |     | 68,378                | (4,322)         | (4,322)         | 64,056          | 66,618               | 69,549               |
| Biological   |     | 264                   | (173)           | (173)           | 91              | 94                   | 99                   |
| <b>Total non current assets</b>  |     | <b>75,842</b>         | <b>(5,140)</b>  | <b>(5,140)</b>  | <b>70,702</b>   | <b>73,530</b>        | <b>76,765</b>        |
| <b>TOTAL ASSETS</b>  |     | <b>87,057</b>         | <b>(6,331)</b>  | <b>(6,331)</b>  | <b>80,726</b>   | <b>83,955</b>        | <b>87,649</b>        |
| <b>LIABILITIES</b>   |     |                       |                 |                 |                 |                      |                      |
| <b>Current liabilities</b>   |     |                       |                 |                 |                 |                      |                      |
| Trade and other payables   |     | 69,741                | 1,329           | 1,329           | 71,070          | 73,913               | 77,165               |
| Provisions   |     | 14,826                | 928             | 928             | 15,754          | 16,384               | 17,105               |
| <b>Total current liabilities</b>                                       |     | <b>84,567</b>         | <b>2,257</b>    | <b>2,257</b>    | <b>86,824</b>   | <b>90,297</b>        | <b>94,270</b>        |
| <b>Non current liabilities</b>   |     |                       |                 |                 |                 |                      |                      |
| Provisions   |     | 56,637                | 5,772           | 5,772           | 62,409          | 62,409               | 65,155               |
| <b>Total non current liabilities</b>                                   |     | <b>56,637</b>         | <b>5,772</b>    | <b>5,772</b>    | <b>62,409</b>   | <b>62,409</b>        | <b>65,155</b>        |
| <b>TOTAL LIABILITIES</b>   |     | <b>141,204</b>        | <b>8,029</b>    | <b>8,029</b>    | <b>149,233</b>  | <b>152,706</b>       | <b>159,425</b>       |
| <b>NET ASSETS</b>  | 2   | <b>(54,147)</b>       | <b>(14,360)</b> | <b>(14,360)</b> | <b>(68,507)</b> | <b>(68,751)</b>      | <b>(71,776)</b>      |
| <b>COMMUNITY WEALTH/EQUITY</b>   |     |                       |                 |                 |                 |                      |                      |
| Accumulated Surplus/(Deficit)  |     | (54,147)              | (14,360)        | (14,360)        | (68,507)        | (68,751)             | (71,776)             |
| Reserves   |     | –                     | –               | –               | –               | –                    | –                    |
| <b>TOTAL COMMUNITY WEALTH/EQUITY</b>                                   | 2   | <b>(54,147)</b>       | <b>(14,360)</b> | <b>(14,360)</b> | <b>(68,507)</b> | <b>(70,333)</b>      | <b>(70,682)</b>      |

The Audited annual financial statements and year to date actual figures were taken into account when determining adjustments on financial position. In consideration of AFS, the total community wealth was understated with negative R54,047 million from the original budget. The total asset was reduced and total liabilities increased based on the current year movements and AFS balances, as resulted to an upwards adjustments on net assets to a negative R68,507 million.

The municipality is anticipating a collection of R4,000 million from Merafong Municipality and BP garage on their long outstanding debts following the credit control measures that has been taken.

### Trade and other payables summary

| Description ('R000)                | 2020/21 AFS    | Movement by<br>30 June | Adjusted      |
|------------------------------------|----------------|------------------------|---------------|
| Payables from exchange transaction | 73 ,128        | (28,044)               | 45,084        |
| Transfers payable (non-exchange)   | 30,444         | (5,328)                | 25,116        |
| Unspent grant                      | 2,640          | (2,640)                | -             |
| Vat Payable                        | 870            | -                      | 870           |
| <b>Total</b>                       | <b>107,082</b> | <b>(36,012)</b>        | <b>71,070</b> |

### Conclusion

Taking all of the above into account, it is recommended that an adjustment budget in terms of MFMA Section 28 for the 2021/22 MTREF should be approved by council and made available to all stakeholders.



# WEST RAND DISTRICT MUNICIPALITY



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## 1. **INTRODUCTION**

Each year National Treasury issued Circulars and the purpose of the annual MFMA budget circular is to guide municipalities with their compilation of the 2021/2022 Medium Term Revenue and Expenditure Framework (MTREF), to ensure that funded budgets are adopted by municipal Councils. This means that expenditure must be contained within realistic revenue projections.

Paragraph 2.2 of Circular 108 reads as follows:

### ***“2.2 Tabling of funded budgets***

*The importance of tabling funded budgets is highlighted in MFMA Circular No. 108. Adopting a funded budget has become more critical now than before as it has direct bearing on the financial sustainability of the institution. It has been agreed that no municipality will adopt an unfunded budget in the future. There are cases that may warrant a plan as this may not be achievable over one year. As a result, such municipalities must, together with their 2021/2022 MTREF budget, table a plan in a municipal council on how and by when the budget will improve from an unfunded to a funded position. This will be essential when the National and provincial treasuries are assessing the budget to determine its credibility.*

## 2. **ASSESSMENT OF BUDGET**

The budget is assessed under the following:

### 2.1. **CREDIBILITY**

- To determine whether the budget is funded in terms of Section 18 of MFMA;
- Evidence of Political Oversight and Public participation;
- Assessing credibility of budget, revenue framework and associated budget assumptions to determine if they are realistic and indicative of multi-year budgeting; and
- Audit outcomes used to determine trends are as per audited AFS

## 2.2. **RELEVANCE**

- To test if the budget is aligned to the reviewed IDP and SDF; and
- The extent to which national and provincial priorities are taken into consideration.

## 2.3. **SUSTAINABILITY**

- To determine whether budget gives effect to long-term financial and operational sustainability of the municipality; and
- To determine if the budget is funded or not over the MTREF

## 3. **FUNDING OF BUDGET**

To determine if a budget is funded or unfunded, Circular 42 provides further guidance to municipalities and municipal entities on funding a budget and seeks to clarify and reinforce the intent of budget related provisions in the MFMA. It complements earlier guidance on funding the budget contained in MFMA circular 28.

One of the key elements of the budget process is ensuring that the budget is appropriately funded. To do this, various MFMA requirements must be understood and complied with, including section 18 (Funding of expenditure), section 19 (Capital projects) and section 21 (Budget preparation process).

In terms of the Municipal Budget and Reporting Regulations, the A1 schedules are used to determine the level of funding. The following tables are used:

- Table A4 – Surplus/Deficit
- Table A6 – Financial Position
- Table A7 – Cash Flow
- Table A8 – Application of Cash & Investments

#### 4. **ASSESSMENT OF BUDGET 2021/2022**

The cash balances of the 2021/2022 MTREF reflect the following

| <b>2021/2022</b> | <b>2022/2023</b> | <b>2023/2024</b> |
|------------------|------------------|------------------|
| R2.7 m           | R2.8 m           | R3 m             |

The impact of unfunded budgets affects the following:

- Cash resources available;
- Leads to audit qualification of pre-determined objective;
- Negative credit ratings that affects ability to borrow money;
- Sustainability of the municipality (going concern);
- Create unrealistic expectations within the communities due to non-performance;
- Poor or lack of service delivery lead to community unrest; and
- This results in non-payment for services, destruction of municipal infrastructure etc.

#### 5. **FINANCIAL CHALLENGES**

The Municipality is facing significant challenges regarding its ability to meet its financial commitments and to ensure sustainability of services provided. The current ratio indicates the municipality's ability to settle current liabilities with current assets. Due to the high outstanding creditors the current ratio indicates that this will not be possible as is evident in the creditor's payment period. The cash / cost coverage ratio indicates the Municipality's ability to pay operating /running expenses from unencumbered cash resources. This indicate that the Municipality is extremely exposed due to not being able to pay operating expenditure which could cause service delivery breakdowns.

Due to cash flow constraints the Municipality is not paying creditors within the legislated period of 30 days. The payment period did not improve on a year-to-year basis and worsened considerably.

## 6. **BUDGET FUNDED PLAN**

Achieving a funded budget is a relatively simple process on paper but extremely difficult to implement in practice as it requires a continued and committed process of financial discipline often over an extended period to turnaround an un-funded budget.

The implementation of financial discipline is often met with resistance, this is often not the popular message to implement.

### 6.1. **NATURE AND EXTENT OF STRATEGIES IDENTIFIED**

This plan is critical to turn the unfunded budget around to a funded budget over a period of the MTREF. The Municipality needs to generate more cash to ensure that the outstanding creditors are paid, cash reserves can be built up to ensure that cash reserves are available for unfunded mandates and to improve the credit rating of the Municipality to obtain external loans and to successfully implement the District Development Model Approach by eradicating outstanding infrastructure backlogs resulting in improving service delivery.

#### 6.1.1. **REVENUE MANAGEMENT PLAN**

Revenue Management Plan is based on the following;

- A Revenue Management Plan has been developed to ensure sustainability of firefighting and rescue services for the district municipality and includes appointment of resource mobilization task team to assist with revenue enhancement initiatives.

Revenue and Cash Flow Management is based on four legs, namely;

- Revenue enhancement;
- Revenue Growth;
- Revenue protection; and
- Cash Flow Management

### 6.1.2. REVENUE ENHANCEMENT

To reach the target of an unfunded budget over the MTREF an additional revenue (exclude the normal grants and subsidies) of R150 million per annum must be generated. A detail revenue enhancement plan is attached hereto.

### 6.1.3. IMPROVEMENT OF PAYMENT RATE

Development and implementation of a debt collection and revenue enhancement strategy to ensure improvement of collection rates and improved cash flow. The payment rate of 62.9% has been used to calculate the current shortfall over the MTREF period.

To ensure a funded budget the following targets are set:

| <b>2020/2021</b> | <b>2021/2022</b> | <b>2022/2023</b> | <b>2023/2024</b> |
|------------------|------------------|------------------|------------------|
| 62%              | 65%              | 72%              | 80%              |

### 6.1.4. CASH FLOW MANAGEMENT

Cash flow management must be implemented to ensure that the cash flow is monitored monthly.

| Description                                      | Ref | Budget Year 2021/2022 |               |               |                |                      |                      |
|--|-----|-----------------------|---------------|---------------|----------------|----------------------|----------------------|
|  |     | Original Budget       | Other Adjusts | Total Adjusts | Adjusted       | Budget Year +2022/23 | Budget Year +2022/24 |
| <b>R thousands</b>                               | 1   |                       |               |               |                |                      |                      |
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>       |     |                       |               |               |                |                      |                      |
| <b>Receipts</b>                                  |     |                       |               |               |                |                      |                      |
| Other revenue                                    |     | 14,350                | (4,771)       | (4,771)       | 9,579          | 9,962                | 10,400               |
| Transfers and Subsidies - Operational            |     | 238,143               | 347           | 347           | 238,490        | 248,030              | 258,943              |
| Transfers and Subsidies - Capital                |     | 9,651                 | -             | -             | 9,651          | 10,037               | 10,479               |
| Interest   |     | 750                   | 748           | 748           | 1,498          | 1,558                | 1,626                |
| <b>Payments</b>                                  |     |                       |               |               |                |                      |                      |
| Suppliers and employees                          |     | (244,730)             | 3,129         | 3,129         | (241,601)      | (251,265)            | (262,321)            |
| Transfers and Grants                             |     | (11,364)              | 1,163         | 1,163         | (10,201)       | (10,609)             | (11,076)             |
| <b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b> |     | <b>6,800</b>          | <b>616</b>    | <b>616</b>    | <b>7,416</b>   | <b>7,713</b>         | <b>8,052</b>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>      |     |                       |               |               |                |                      |                      |
| <b>Receipts</b>                                  |     |                       |               |               |                |                      |                      |
| Proceeds on disposal of PPE                      |     | 800                   | (800)         | (800)         |                |                      |                      |
| Decrease (increase) in non-current receivables   |     |                       |               |               |                |                      |                      |
| Decrease (increase) in non-current investments   |     |                       |               |               |                |                      |                      |
| <b>Payments</b>                                  |     |                       |               |               |                |                      |                      |
| Capital assets                                   |     | (7,600)               | 1,600         | 1,600         | (6,000)        | (6,240)              | (6,515)              |
| <b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b> |     | <b>(7,600)</b>        | <b>1,600</b>  | <b>1,600</b>  | <b>(6,000)</b> | <b>(6,240)</b>       | <b>(6,515)</b>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>      |     |                       |               |               |                |                      |                      |
| <b>Receipts</b>                                  |     |                       |               |               |                |                      |                      |
| Short term loans                                 |     | -                     |               |               |                |                      |                      |
| Borrowing long term/refinancing                  |     | -                     |               |               |                |                      |                      |
| Increase (decrease) in consumer deposits         |     | -                     |               |               |                |                      |                      |
| <b>Payments</b>                                  |     |                       |               |               |                |                      |                      |
| Repayment of borrowing                           |     | -                     |               |               |                |                      |                      |
| <b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b> |     | <b>-</b>              |               |               |                | <b>-</b>             | <b>-</b>             |
| <b>NET INCREASE/ (DECREASE) IN CASH HELD</b>     |     | <b>(800)</b>          | <b>2,216</b>  | <b>2,216</b>  | <b>1,416</b>   | <b>1,473</b>         | <b>1,537</b>         |
| Cash/cash equivalents at beginning:              |     | -                     |               |               | 1,323          | -                    | -                    |
| Cash/cash equivalents at month/year end:         |     | (800)                 | 2,216         | 2,216         | 2,739          | 1,473                | 1,537                |

### 6.1.5. COST CONTAINMENT MEASURES

Cost containment measures must be applied according to the cash available as determine in the cash flow management and according to the guidelines as imposed by National Treasury

### 6.1.6. FINANCIAL MANAGEMENT CAPACITY MATURITY MODEL (FMCMM)



The target set for improving the finances of the municipality in terms of the FMCMM action plan is as follows:

|                 | <b>2020/2021</b> | <b>2021/2022</b> | <b>2022/2023</b> |
|-----------------|------------------|------------------|------------------|
| Achieved        | 10               | 12               | 14               |
| In-progress     | 7                | 9                | 10               |
| Not-yet started | 7                | 3                | 0                |

## **7. IMPLEMENTATION OF THE FUNDED BUDGET PLAN**

The responsibility for the implementation of the Funded Budget Plan (FBP) lies with the municipality and will need to be monitored by Council, the Mayor and the Municipal Manager (MM). The implementation of the FBP will be the responsibility of the Municipal Manager and Management Team. However, it must be emphasized that the strategies set out in this Funded Budget Plan relate to activities that must be institutionalized and performed by the officials as their routine tasks and who are appointed to such positions and given specific roles, responsibilities and delegations.

The implementation responsibility should also be operationalized and institutionalized whereby the key focus areas and activities outlined in the funded budget plan must be cascaded to all relevant municipal officials, acting and/or permanent, and included in their respective performance agreements.

## **8. RISK ASSOCIATED WITH THE PLAN**

The Plan has identified certain risks that must be mitigated for successful implementation and proposes significant changes, particularly with regard to the organizational structure, governance, service delivery functions and financial administration including budgeting and cash flow management. Significant changes to financial discipline are envisaged in the plan.

Some of the risks that can normally be associated with financial problems, include amongst others: -

- Inadequate implementation of the FBP and poor political oversight of the process;
- Continued breakdowns due to old infrastructure and insufficient maintenance;
- Continued non-recovery of services;
- Non-metering of electricity and water services, which creates distribution losses;
- Continued non-collection of revenue and increase in the debtor's book;
- Non-commitment to stringent expenditure measures and controls;
- Not obtaining of Funding for the proposed plans and strategies;
- Poor political oversight and ownership of the challenges and processes going forward; and
- Inadequate implementation of internal controls.

In order to mitigate the risks identified a FBP is developed to indicate specific timeframes and responsibilities for each of the activities to be delivered in the strategies developed in the FBP. These deliverables must be included in the performance agreements of all managers.

Councilor's support for the FBP is also required and effective, improved and consistent communication by Councillors, Officials of the Municipality and the Community. Improved Credit Control processes and procedures should mitigate against the continuation of non-payment and the worsening of collection rates. These risks will require effective and focused management as their combined impact is likely to have far reaching consequences and will impact on the sustainability of the Municipality

There will be a need for a regular review of the risks identified to ensure that as additional risks arise, timely mitigation strategies can be adopted and instituted.

## 9. **MONITORING AND EVALUATION**

This FBP will have little value if it is not implemented and institutionalized holistically as the various components are integrated and cannot be implemented in isolation of each other even though certain aspects may only be implemented in the medium to long term.

The Municipal Manager should implement this FBP up until such time that all aspects of the plan have been fully dealt with. The Municipal Manager should also utilize the tools proposed and those at his disposal to assess and monitor and evaluate progress on the FBP and report to Council and Provincial Government on a regular basis.

## DETAILED COST CONTAINMENT MEASURES & REVENUE ENHANCEMENT

### 9.1. COST CONTAINMENT MEASURES (SHORT TO MEDIUM TERM)

| No | Priority Turn Around Focal Area   | Current Situation/ Baseline)  | Target (Changed Situation)  | Municipal Action   | Resource allocated   | Projected income/ (savings) |
|----|---|---|---|--|--|-----------------------------|
| 1  | Transfer of Merafong Flora to Gauteng department of agriculture and rural development                 | The district municipality is present running this function at the loss of R2.1 million                                    | Gauteng department of agriculture and rural development to take over this function.   | The legal form of land vests with Sibanye Still water. Donation of the land needs to be transferred to the District. Transfer is presently in process of being finalised by the conveyancer. | Sibanye Still water to donate the land to the District as a pre-requisite for GDARD to consider supporting the Merafong Flora project financially, so that the process of transfer can commence. | (R2 100 000)                |
| 2  | Application for exemption on any negotiated increase above the level of municipality's affordability. | The municipality presently has unfunded budget and employee related cost is the major contributor. Presently at 3.9% CPIX | The municipality is opting to apply for no more than a zero per cent increase in the 2021/22 MTREF to achieve funded.           | Apply for exemption once the national negotiations has been concluded.   | Council to approve intention to apply for salary increment exemption.  | (R11 800 000)               |
| 3  | Negotiations with Organised labour to waive the annual notch increments                               | Management initiated notch increment in 2016/17 financial year and was implemented on 2018/19 financial year              | Suspension of notch increments will assist the with reduction of employee related cost and curb overall operational Expenditure | Management to consult with Organised labour on the impact of putting notch increment on abeyance and reach amicable solution   | Employees to be notified on suspension of notch increment  | (R7 500 000)                |

|   |  |  |  |   |   |               |
|---|--|--|--|---|---|---------------|
| 4 | Review of long service award policy          | The municipality presently has a long service award long-term obligation of R17 million which is not cash backed contributes to a R160 million cash shortfall. | The municipality to table the review of the long service award policy to Council so that the exemption of the policy be approved.          | Municipal Council to approve exemption of the policy to prevent liability from increase further.                                      | Management to negotiate with Organised labour on the intention to table the review of the long-service award policy to Council          | (R17 872 477) |
| 5 | Review of Post-retirement medical aid policy | The municipality presently has a long service award long-term obligation of R62 million which is not cash backed contributes to a R160 million cash shortfall. | The municipality to table the review of the Post-retirement medical aid policy to Council so that the exemption of the policy be approved. | Municipal Council to approve exemption of the policy to prevent liability from increase further by applying the matter prospectively. | Management to negotiate with Organised labour on the intention to table the review of the long-service award policy to Council          | (R2 872 477)  |
| 5 | <i>Insourcing vs outsourcing services</i>    | The District is presently outsourcing VAT review and Fixed assets conditional assessments  | The municipality should develop internal skills to perform outsourced functions.   | Enroll employees with various taxation, accounting and valuation professional bodies to be members.                                   | The municipality to bear the cost of enrollment and annual membership to the professional membership bodies on behalf of its employees. | (R3 200 000)  |

|   |  |  |   |   |  |            |
|---|--|--|---|---|--|------------|
| 6 | Cost curtailment on computer equipment | The municipality presently budgeted R1 million for computer equipment in 2020/21 financial year. | Computer equipment current budget be reduced to R400,000 and another R600,000 be deferred to the following FY | Budget reduction to accommodate new council on computer equipment after elections | Computer equipment be reduced to R400,000 in 2020/21 FY and R600,000 carried to R400,000 | (R400 000) |
|---|--|--|---|---|--|------------|

## 9.2. REVENUE ENHANCEMENT PLAN (SHORT TO MEDIUM TERM)

| No | Priority Turn Around Focal Area  | Current Situation/ Baseline)  | Target (Changed Situation)   | Municipal Action  | Resource allocated  | Projected income/ (savings) |
|----|----------------------------------|---|--|---|---|-----------------------------|
| 1  | <i>Fire services</i>             | Fire service function is presently an unfunded function and constitute 65% of the municipality's budget | The municipality aims to sustain the fire service function to deliver optimum service delivery to the Community      | Make application of re-introduction of fire service levy to National Treasury and enter into SLA's with constituent local municipalities            | National Treasury established a task team made up Provincial Treasury, CoGTA, District and Local municipality to look at the viability of fire services levy and realigning the equitable share to accommodate the fire service function. | R51 803 430                 |
| 2  | <i>Emergency Rescue services</i> | Emergency rescue services is part of the fire service function which is presently an unfunded function  | The municipality aims to sustain the fire service function to deliver optimum service delivery to the community      | Engage with road accident fund, SANRAL and insurance companies on the sustainability of the services provided on both provincial and National roads | Road accident fund, SANRAL and insurance companies to assist the District in sustaining the function. Realignment of equitable share to accommodate the emergency rescue service function   | R20 000 000                 |
| 3  | <i>Parking By-laws</i>           | The District does not generate sufficient own revenue   | The municipality aims to identify revenue opportunities which will sustain maintenance of its facilities and assets. | Engage with constituent local municipalities to promulgate by-laws and enter into SLA's with them.  | The constituent local municipalities to assist the district with revenue generation   | R3 000 000                  |

|   |   |   |  |  |  |                                  |
|---|---|---|--|--|--|----------------------------------|
| 4 | <i>Mobilizing a developer/investor to invest in the development of the Donaldson dam on PPP arrangement</i> | There are presently limited activities at Donaldson Dam facilities with minimal revenue   | Long term lease arrangement with the Investor who will restore the facility. The investor will take over the entire operation of the dam including the security and pay us a rent for the period it will take for him to recover his investment. At the end of the lease and after recovering his investment, he hand back the facility to us. | Mobilize investor on PPP Agreement and perform cost benefit analysis   | The cost of security, repair and maintenance, as well as staff cost situated at Donaldson Dam will be curbed. Maximum revenue to be generated. | R3 500 000<br><br>(R2 784 000)   |
| 5 | The municipality to consider the option of leasing majority of its premises to commercial customers         | The municipality is presently leasing minority (10%) of its premises to commercial customers and generates rental income of R2 million per annum. | The municipality wants to strengthen its revenue muscle and reduce operational costs of maintaining the office building. The municipality proposes to optimise the utilisation of 10% of its building for administration purposes.   | The municipality to restructure the building offices to open plan in order to utilise the building economically and generate maximum revenue. This will reduce utility, cleaning, consumables and security costs which are presently incurred. | Item to be tabled to Council once the resource mobilization tasks team has performed cost benefit analysis                                     | R18 604 000<br><br>(R20 284 000) |