ITEM:

REPORT OF THE CHIEF FINANCIAL OFFICER

2023/2024 BUDGET ADJUSTMENT

1. PURPOSE OF THE REPORT

The purpose of the report is to obtain Council's approval for the Budget Adjustment of the 2023/2024 Medium-term Revenue and Expenditure Framework in term of Section 28 of the Municipal Finance Management Act, 2003 (Act 56 of 2003).

2. BACKGROUND

The 2023/24 Medium Term Revenue and Expenditure Framework (MTREF) was approved on 22 May 2024 in accordance with Section 24 (1) of the Municipal Finance Management Act (MFMA), 2003 (Act of 2003).

In terms of Section 28 of the MFMA, a municipality may revise an approved annual budget through an adjustments budget. Municipal budget and reporting regulation (MBRR) 23(1) and (2) state that an adjustments budget may be tabled at the municipal council, any time after the mid-term budget and performance assessment, but not later than February of the current year. It further states that only one adjustments budget may be tabled, except when additional revenues are allocated from the national and provincial adjustments budgets.

Section 28(2) provides guidelines on when an adjustments budget can be prepared and subsection (2)(b) to (g) stipulates the limitations, as to timing or frequency.

The guidelines are as follows:

(1) A municipality may revise an approved budget through an adjustments budget.
(2) An adjustments budget –

(a) must adjust the revenue and expenditure estimate 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 rollovers when the annual budget for the current financial 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.

Taking into account the mid-term performance, an adjustments budget is necessary mainly to:

- To address the impending shortfall on the service charges revenue
- To address overspending on various line items
- To authorise the utilization of projected savings in one vote towards spending under another vote
- To appropriate roll-over grants that were approved during the financial year
- To appropriate additional grant funding that have been received
- To accommodate the implementation of the new wage adjustment and the expenditure incurred on the ex-gratia payments

The adjustment budget takes into account the MFMA Circular 42 and National Treasury directive that the WDM must ensure that 2021/22 Adjustment Budget is funded from realistically anticipated revenues to be collected. Waterberg District Municipality is committed to ensuring that it stabilizes its finances through the implementation of a revenue enhancement strategy and this will be achieved over a medium term period.

Paragraph 23 of the **Municipal Budgeting and Reporting Regulations** states that:
"An Adjustment Budget may be tabled after the Mid-Year Budget & Performance Assessment has been tabled to Council, but not later than 28 February. Only one Adjustment Budget is allowed annually, unless in special cases of additional revenue or after unforeseeable and unavoidable expenditure. An Adjustment Budget to approve the roll-overs of the prior year must be approved by Council by 25 August annually if there are roll-overs on projects."

3. MID-YEAR FINANCIAL ASSESSMENT

Section 72 of the Municipal Finance Management Act requires the Accounting Officer by the 25 January 2024, assess the state of municipality's budget based on the Section 71 reports submitted, the municipality service delivery performance during the first half of the 2023/24 taking in to account the service delivery target and performance indicators set out in the Service Delivery and Budget Implementation Plan, the previous year 2022/23 annual report. Where it is deemed necessary the accounting officer must, as part of the review, make recommendations as to whether an adjustments budget is

necessary; and recommend revised projections for revenue and expenditure to the extent that this may be necessary.

The table below reflects the WDM Financial performance for the period ending 31 December 2023.

DC36 Waterberg - Table C1 Monthly Budget Statement Summary - M06 - December

Description	2022/23	Budget Year 2023/24							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	F
R thousands								%	
Financial Performance									
Property rates	–	–	–	–	–	–	–		
Service charges	–	–	–	–	–	–	–		
Investment revenue	3 029	2 566	–	91	1 633	1 283	350	27%	
Transfers and subsidies - Operational	149 388	154 572	–	50 170	114 402	110 058	4 344	4%	
Other own revenue	2 520	2 373	–	81	919	1 187	(267)	-23%	
Total Revenue (excluding capital transfers and contributions)	**154 937**	**159 512**	–	**50 342**	**116 954**	**112 527**	**4 426**	**4%**	
Employee costs	116 764	127 546	–	9 636	59 770	63 773	(4 003)	-6%	
Remuneration of Councillors	9 008	9 218	–	745	4 869	4 609	260	6%	
Depreciation and amortisation	5 272	7 393	–	490	2 951	3 696	(745)	-20%	
Interest	–	–	–	–	–	–	–		
Inventory consumed and bulk purchases	(0)	–	–	–	–	–	–		
Transfers and subsidies	–	–	–	–	–	–	–		
Other expenditure	41 232	41 985	–	3 089	18 440	20 993	(2 553)	-12%	
Total Expenditure	**172 277**	**186 142**	–	**13 960**	**86 030**	**93 071**	**(7 041)**	**-8%**	
Surplus/(Deficit)	**(17 339)**	**(26 630)**	–	**36 382**	**30 924**	**19 457**	**11 467**	**59%**	
Transfers and subsidies - capital (monetary	–	–	–	–	–	–	–		
Transfers and subsidies - capital (in-kind)	–	–	–	–	–	–	–		
Surplus/(Deficit) after capital transfers &	**(17 339)**	**(26 630)**	–	**36 382**	**30 924**	**19 457**	**11 467**	**59%**	
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–		
Surplus/ (Deficit) for the year	**(17 339)**	**(26 630)**	–	**36 382**	**30 924**	**19 457**	**11 467**	**59%**	

Revenue realized as at 31 December 2023 amounted to R 116 million which is 4% above the projected year to date budget. The District has limited opportunities for revenue due the reduced powers and functions, thus 97% of revenue budgeted is grants and subsidies. The operating expenditure amounted to R86 million which is 8% below the anticipated expenditure for the first quarter.

WDM capital budget for the period 2023/24 amounted to R150 000 and to date there is no expenditure incurred.

Council approved budget with deficit amounting to R26 million as such spending should be kept at a minimum level in order to reduce this projected deficit. The services such as municipal health and fire-fighting services, as well as the Abattoir operations has a huge impact on this deficit.

The accumulated deficit from the previous financial years as well as the projected deficit for the current financial year is, as per the current state of affairs worsening the

financial position of the Municipality. This will have detrimental effect on the municipality's ability to fund the future budget shortfalls and IDP projects required to meet service delivery mandate.

4. 2023/24 ADJUSTMENT BUDGET PROCESS

The 2023/24 adjustment budget guideline issued by the accounting officer outlined the following principle:

- During the approval of the 2023/24 MTREF the operating budget baseline was reduced taking into account the lower expenditure patterns of the 2 quarters and the municipal financial position.
- Based on the current financial position, departments where urgent to continue with cost containment and not commit beyond their allocation.
- No additional funding request will be considered, thus departments requested to manage expenditure within their approved budget and identify savings to cover anticipated budget shortfall within approved allocations.
- The budget must be funded in term of the funding compliance procedure set out in the MFMA circular 42, and the funding compliance guideline.

5. SUMMARY OF THE PROPOSED 2023/24 ADJUSTMENT BUDGET

Taking in to account the mid-term financial performance and the adjustment budget submission received from the various departments, the following table summarized the 2023/24 proposed adjustment budget.

Table 1. Consolidated Overview of the adjustment budget

DC36 Waterberg - Table B1 Adjustments Budget Summary - 2023/2024

Description	2023/24									Budget Year 2024/25	Budget Year 2025/26
	Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		1	2	3	4	5	6	7	8		
R thousands	A	A1	B	C	D	E	F	G	H		
Financial Performance											
Property rates	–	–	–	–	–	–	–	–	–	–	–
Service charges	–	–	–	–	–	–	–	–	–	–	–
Investment revenue	2 566	–	–	–	–	–	699	699	3 265	2 692	2 818
Transfers recognised - operational	154 572	–	–	–	–	–	–	–	154 572	162 206	166 612
Other own revenue	2 373	–	–	–	–	–	23	23	2 396	2 070	2 167
Total Revenue (excluding capital transfers and contributions)	**159 512**	–	–	–	–	–	**722**	**722**	**160 234**	**166 967**	**171 598**
Employee costs	127 546	–	–	–	–	–	(1 487)	(1 487)	126 059	133 795	140 084
Remuneration of councillors	9 218	–	–	–	–	–	758	758	9 976	9 669	10 124
Depreciation & asset impairment	7 393	–	–	–	–	–	(1 424)	(1 424)	5 969	7 755	8 120
Finance charges	–	–	–	–	–	–	–	–	–	–	–
Invertory consumed and bulk purchases	–	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies	–	–	–	–	–	–	–	–	–	–	–
Other expenditure	41 985	–	–	–	–	–	1 180	1 180	43 165	43 207	45 185
Total Expenditure	**186 142**	–	–	–	–	–	**(973)**	**(973)**	**185 168**	**194 427**	**203 512**
Surplus/(Deficit)	(26 630)	–	–	–	–	–	1 696	1 696	(24 934)	(27 459)	(31 915)
Transfers and subsidies - capital (monetary	–	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies - capital (in-kind - all)	–	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers &	**(26 630)**	–	–	–	–	–	**1 696**	**1 696**	**(24 934)**	**(27 459)**	**(31 915)**
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–	–
Surplus/ (Deficit) for the year	**(26 630)**	–	–	–	–	–	**1 696**	**1 696**	**(24 934)**	**(27 459)**	**(31 915)**

The total operating revenue increased by R 722 326 mainly on Interest earned on investment income. The total expenditure decreased by R 973 343. The net effect of Increase and decrease in both revenue and expenditure is R 1 695 668.

5.1 Operating revenue

The table below reflects the approved 2023/24 MTREF and proposed adjustment.

DC36 Waterberg - Table B1 Adjustments Budget Summary - 2023/2024

Description	2023/24									Budget Year 2024/25	Budget Year 2025/26
	Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		1	2	3	4	5	6	7	8		
R thousands	A	A1	B	C	D	E	F	G	H		
Financial Performance											
Property rates	–	–	–	–	–	–	–	–	–	–	–
Service charges	–	–	–	–	–	–	–	–	–	–	–
Investment revenue	2 566	–	–	–	–	–	699	699	3 265	2 692	2 818
Transfers recognised - operational	154 572	–	–	–	–	–	–	–	154 572	162 206	166 612
Other own revenue	2 373	–	–	–	–	–	23	23	2 396	2 070	2 167
Total Revenue (excluding capital transfers and contributions)	**159 512**	–	–	–	–	–	**722**	**722**	**160 234**	**166 967**	**171 598**

Interest earned – External Investments

Investment revenue has been increased by to R699 410. The increase in the interest earned on external investment can be attributed to higher interest rates we received from our banks.

The total adjustment to revenue is increase of R722 326 bringing the total budgeted revenue after adjustment to R160 233 927.

5.2 Operating expenditure

Council approved an operating expenditure budget amounting to R186 141 728

The provision of leave to the amount of R18 million for all employees assumes that all employees will resign this current financial year which is very much unlikely.

The municipality no longer allows for leave encashment due to financial and budget constraints.

There is also savings realized in terms of employee related costs due to resignation and unfilled vacancies.

Depreciation was adjusted downwards to revised useful life of assets.

Expenditure will be monitored closely to ensure that the municipality closes the year with a budget surplus.

The table bellows reflects the approved 2023/24 MTREF and proposed adjustments

DC36 Waterberg - Table B1 Adjustments Budget Summary - 2023/2024

Description	2023/24									Budget Year 2024/25	Budget Year 2025/26
	Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		1	2	3	4	5	6	7	8		
R thousands	A	A1	B	C	D	E	F	G	H		
Employee costs	127 546	–	–	–	–	–	(1 487)	(1 487)	126 059	133 795	140 084
Remuneration of councillors	9 218	–	–	–	–	–	758	758	9 976	9 669	10 124
Depreciation & asset impairment	7 393	–	–	–	–	–	(1 424)	(1 424)	5 969	7 755	8 120
Finance charges	–	–	–	–	–	–	–	–	–	–	–
Inventory consumed and bulk purchases	–	–	–	–	–	–	–	–	–	–	–
Transfers and subsidies	–	–	–	–	–	–	–	–	–	–	–
Other expenditure	41 985	–	–	–	–	–	1 180	1 180	43 165	43 207	45 185
Total Expenditure	**186 142**	**–**	**–**	**–**	**–**	**–**	**(973)**	**(973)**	**185 168**	**194 427**	**203 512**

The adjustments on the operating expenditure are mainly due to the following reasons:

Employee cost

Employee related costs decreased by R1 487 095mainly due to salaries based on mid-term results. Adjustments where processed within the different votes.

Depreciation and asset impairment

Depreciation and asset impairment decreased by R1 423 671 mainly due to mid-term results also taking into account the revised depreciation calculations.

Other expenditure

Other expenditure increased by R1.1 million mainly due to the following items:

- Maintenance of vehicles
- Fuel cost
- Rental of equipment
- S & T

Savings on various items were identified within general expenditure.

Therefore net operating expenditure would decrease by R973 343 resulting in the total budgeted expenditure after adjustment being R185 168 385 including the IDP operating projects. The net effect of decrease in both revenue and expenditure is R24 934 459.

The shortfall in the 2023/24 approved operating budget is funded as such spending should be kept at a minimum level in order to reduce this projected deficit. The unfunded health and fire-fighting services, as well as the Abattoir operations has a huge impact on this deficit, since some services which are not funded by grants have been included in the approved budget. The full amount of the shortfall relates to an actual operating shortfall in the current year whereby the revenue received during the year will not be enough to fund the budgeted 2023/24 operating expenditure. This is a major cause for concern as indication is that the municipality will continuously be short on the budget in future as revenue is fixed per grants and majority of operating expenditure is salary related which often increases by more than the CPI or relevant equitable share percentage increase.

The accumulated deficit from previous years is, as per the current state of affairs, worsening the financial position of the municipality and having a detrimental effect on the IDP as surpluses previously allocated to the IDP is now used to fund operating shortfalls, thereby decreasing the IDP funding for projects significantly. Attached as Budget Table B8 is the funding measurement test which indicates that currently all years of the proposed adjustment budget are still funded.

5.3 2023/24 capital budget adjustments

Capital budget approved for the 2023/24 financial year amounting to R150 000.An adjustment budget of R30 000 were made on the capital budget for 2023/24 financial year to make adjustment budget on capital projects to R180 000.

6. STAFF IMPLICATIONS

None.

7. FINANCIAL IMPLICATIONS

See calculations/explanations above and attached annexures below.

8. OTHER PARTIES CONSULTED

Section 57 Managers
Divisional Managers
Project Managers

9. ANNEXURES

- Annexure A – 2023/24 MTREF Adjustment budget report

- Schedule B - Detailed Budget Schedules in terms of the National Treasury MBRR Template

10. AUTHORITY

- Municipal Finance Management Act No 56 of 2003 (MFMA)
- MFMA Circulars
- Municipal Budget and Reporting Regulations, Notice 393 of 2009
- Government Gazette no 32141 dated 17 April 2009

11. RECOMMENDATIONS

That:

1. In terms of Section 28(2) of the MFMA, the proposed 2021/22 adjustment budget (operating and capital) be approved as set out in this report;

2. The supporting documentations as per Annexure A be approved together with the following tables:

    - Adjusted budget summary

- Adjusted budget financial performance (revenue and expenditure by municipal vote)
- Adjusted budget financial performance (revenue and expenditure by standard classification)
- Adjusted budget financial performance (revenue by source and expenditure by type)
- Adjusted capital expenditure budget by municipal vote and funding
- Adjusted budget financial position
- Adjusted budget cash-flows
- Cash-backed reserves/accumulated surplus reconciliation.
- Assets management

3. That, following the approval of the 2023/24 adjustments budget by Council, it be submitted in both printed and electronic formats to the National Treasury and the relevant provincial treasury within ten working days, as required by regulation 24 of the Municipal Budget and Reporting Regulations.;

4. The adjustment of 2023/24 IDP and SDBIP be approved; and

5. The budget & SDBIP adjustments be made public in compliance with MFMA Section 54(3).