

# SETSOTO LOCAL MUNICIPALITY



2022/23 - ADJUSTMENT BUDGET

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## 1 Executive Summary

National Treasury's MFMA Circular No. 115 were used to guide the compilation of the 2022/23 adjustment budget. The mSCOA version 6.6 was also introduced with the circulars and thus the budget tables were compiled and reported in terms of the said circulars. The main challenges experienced during the compilation of the 2022/23 adjustment budget can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Ageing and poorly maintained water, roads and electricity infrastructure;
- Vandalism of infrastructure (water, sewer and electricity network cables)
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2022/23 adjustment budget;

## 2 Adjustment budget process

The municipality's annual budget process started in August 2020, when the Municipal Council of the municipality approved budget timelines as required by legislation. Subsequently, 2022/23 annual budget was tabled to Council in May 2022 and approved in June 2022 after public consultations.

The adopted budget was then sent to National Treasury and Provincial Treasury as required by the MFMA and MBRR. National Treasury then wrote letters to the Accounting Officer advising him of the fact the adopted budget is not funded. National Treasury further had presentations which were done to the Senior Manager/Directors and Budget & Treasury officials to highlight aspects that needs to be addressed for the budget to be funded, at least in the next 3 financial years.

The mid -year budget assessment for the budget year was done in terms of section 72 of the MFMA and indicated that the annual budget of the municipality should be revised through an

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adjustment budget in accordance with section 72 of the MFMA. As part of the assessment the half year budget performance was submitted to departments for review of their performance. The consolidated adjustment budget was presented before the budget steering committee established by the Mayor for finalisation.

<b>Description</b>	<b>Budget Year 2022/23</b>	
	<b>Original Budget</b>	<b>Adjusted Budget</b>
<b>R thousands</b>		
Total Revenue	612,167	622,169
<i>Total Expenditure</i>	645,812	621,932
Capital expenditure	249,489	230,896

### 3 Operating revenue

There is an increase of R10.002 million [1.6%] from the original budget to the adjustment budget. The increase emanated from under budget on the interest revenue and other revenue. The municipality capitalised more interest on investments than what was budgeted.

### 4 Operating expenditure

Municipality budget for expenditure was informed by the following: balance budget constraints [the municipality must not budget for a cash deficit]; funding of the budget as based on section 18 and section 19 of Municipal Finance Management Act; Act 54 of 2003; National Treasury MFMA circulars; South African Local Government Bargaining Council collective agreement on salaries and average CPI. Furthermore, the municipality strive to implement cost containment measures with the view of spending on only essential items. Table underneath shows adjustment budget expenditure.

The adjusted operating expenditure decreased with R23.881 million from R645.812 million [Original budget] to R621.932 million [adjustment budget] The increase is as a result of the votes that were already overspend by end of December 2022. The increase in expenditure was mainly at contracted services, transfers and subsidies and other expenditure.

## **5 Capital expenditure**

Capital expenditure decrease from R249.489 million [Original Budget] to R230.896 million [Adjustment Budget] a decrease of R18.593 million was as a result that the other functions such as electricity, roads and housing capital budget was not feasible and had to be decreased.

The capital expenditure will be funded from government grants; external financing and internally generated funds.

## **6 Recommendation**

It is recommended that Council of Setsoto Local Municipality at the meeting to be held on 28 February 2023 -

- 1.1. Approves the adjustment of revenue and expenditure estimates for the current financial year;
- 1.2. Authorise the utilisation of projected savings in one vote towards the spending in another votes where there is over spending;
- 1.3. Approve the proposed adjustment budget and narrated report and the Attached B-Schedule;
- 1.4. That expenditure related to service delivery receives preference on procurement; and
- 1.5. That the budget deficit be approved based on the implementation of Circular 58 related to the depreciation accounting principle.
- 1.6. That the non-cash depreciation being funded from the accumulated surplus account and gradually faced out during the coming financial years.

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**FS191 Setsoto - Table B1 Adjustments Budget Summary - 28/02/2023**

Description	Budget Year 2022/23								
	Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget
R thousands	A	1 A1	2 B	3 C	4 D	5 E	6 F	7 G	8 H
<b>Financial Performance</b>									
Property rates	73,985	-	-	-	-	-	-	-	73,985
Service charges	258,092	-	-	-	-	-	(4,758)	(4,758)	253,334
Investment revenue	3,700	-	-	-	-	-	2,100	2,100	5,800
Transfers recognised - operational	238,854	-	-	-	-	-	-	-	238,854
Other own revenue	37,536	-	-	-	-	-	12,661	12,661	50,197
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>612,167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,003</b>	<b>10,003</b>	<b>622,169</b>
Employee costs	228,323	-	-	-	-	-	1,332	1,332	229,655
Remuneration of councillors	12,535	-	-	-	-	-	1,747	1,747	14,282
Depreciation & asset impairment	120,865	-	-	-	-	-	(23)	(23)	120,842
Finance charges	1,555	-	-	-	-	-	(381)	(381)	1,174
Inventory consumed and bulk purchases	150,746	-	-	-	-	-	(36,166)	(36,166)	114,580
Transfers and grants	14,776	-	-	-	-	-	8,884	8,884	23,659
Other expenditure	117,012	-	-	-	-	-	727	727	117,739
<b>Total Expenditure</b>	<b>645,812</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23,881)</b>	<b>(23,881)</b>	<b>621,932</b>
<b>Surplus/(Deficit)</b>	<b>(33,646)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,883</b>	<b>33,883</b>	<b>237</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	221,001	-	-	-	-	-	(2,000)	(2,000)	219,001
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions) & Transfers and subsidies - capital (in-kind - all)	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>187,355</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,883</b>	<b>31,883</b>	<b>219,238</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-
<b>Surplus/ (Deficit) for the year</b>	<b>187,355</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,883</b>	<b>31,883</b>	<b>219,238</b>

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In order to determine a realistic and credible budget the following calculation was made using the table above:

Total Revenue	R 622.169 million
Less Debt Impairment	R 61.783 million
<b>Available Cash Revenue</b>	<b><u>R 560.386</u></b> million
Total Expenditure	R 621.931 million
Less Debt Impairment	R 61.783 million
Less Depreciation	R 120.842 million
<b>Cash Expenditure</b>	<b><u>R 439.306</u></b> million
Surplus	<u>R 121.079</u> million

With the necessary financial discipline, the municipality might maintain the basic service delivery.

The full B-schedule is attached.

### 6.1 Municipal manager's quality certificate

I, N F Malatjie, Municipal Manager of Setsoto Local Municipality, hereby certify that the adjustment budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the adjustment budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name            N F Malatjie

Municipal manager of Setsoto Municipality (FS191)

Signature

Date            28 February 2023