



**DR NKOSAZANA DLAMINI-ZUMA  
LOCAL MUNICIPALITY  
PRESENTS  
2018/19 ADJUSTMENT BUDGET**

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## **PURPOSE OF THE REPORT**

The purpose of the report is to revise an approved annual budget through an adjustment budget as there have been changes on anticipated revenue and expenditure in terms of MFMA.

## **BASIS AND BACKGROUND ON THE PREPARATION OF ADJUSTMENT BUDGET**

The Mid-Year Budget and Performance Assessment report (section 72 report) was prepared For Dr Nkosazana Dlamini Zuma municipality and presented to Council on the 24<sup>th</sup> January 2019 and after that process of the Mid-Year Budget and Performance Assessment report a decision for Adjustment budget preparation was taken.

The 2018/2019 adjustments budget is prepared in accordance with Municipal budget and regulations, promulgated in government gazette No. 32141 dated 17 April 2009, MFMA, Act No. 56 of 2003 and guidelines and assumptions outlined on Treasury Circular for Mid Year Assessment and Adjustment Budget of 2018/19, taking into consideration the following aspects;

- National budget assumptions, guidelines and projections;
- Alignment with national and provincial priorities;
- Headline inflation and gross domestic products forecasts; and
- Revenue assumptions with regard to grants allocation in terms of DORA.
- Municipal budget underlying assumptions, guidelines and projections;
- Anticipated own revenue from rates and services charge, sundry charges and other revenues and affordability of ratepayers and consumers of services;
- The ability of municipality to collect revenue (payment level);
- Operating expenditure cost drivers and growth thereof;
- Capital budget funding model;
- Protecting the poor by ensuring access to basic services

According to the Mid-Year Budget and Performance assessment report presented to Council it was recommended to Council that the 2018/2019 annual budget be amended to revise projections for revenue and expenditure amongst the different votes.

# PART 1 – ADJUSTMENT BUDGET

## 1. MAYOR'S REPORT

2018/19 Adjustment budget presentation by her Worship the Mayor Councilor P.N Mncwabe at Dr Nkosazana Dlamini-Zuma Local Municipality in February 2019.

Honorable Speaker, I am pleased to officially present an overview of 2018/19 Adjustment Budget in terms of MFMA where we report on how the municipality anticipates ensuring that Service delivery priorities, as identified in the Integrated Development Plan (IDP) are funded and implemented. The MFMA states that “a municipality may revise an approved annual budget through 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 made in the annual budget; and

(g) May provide for any other expenditure within a prescribed framework.

The adjustment budget has been prepared considering the provision of the MFMA as stated above and in other sections of the MFMA as well as treasury regulations and circulars.

Our main Objective as the municipality is to ensure that the communities of the Dr Nkosazana Dlamini-Zuma Local Municipality get access to basic services and thus we are confident that this adjustment budget has been compiled to ensure that this happens.

I would also like to thank all the stakeholders who supported the municipality in the past years and current year, your dedication has led to an unqualified audit opinion in the past years as well as in 2017/2018 as included in the Annual Report. There has been a reduction on the number of items identified by AG on the management letter and it is with this improvement that we are looking forward to get the Clean Audit in future.

Considering the above explanation, I hereby recommend that the council may approve the 2018/2019 adjustment budget.

I thank you.

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**Honourable Mayor**  
**Councillor P.N Mncwabe**

## **2. RESOLUTIONS**

**It is recommended that the council:**

Notes and adopt the Adjustment Budget for 2018/2019 financial year

Notes the Mid-Year Budget and Performance Assessment Treasury comments for 2018/2019 financial year

## **3. EXECUTIVE SUMMARY**

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

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have' items. This has resulted in savings to the municipality.

The Provincial Treasury's Circular for Adjustment budget and Mid-Year budget and Assessment of 2018/19 was also used to guide the compilation of 2017/18 Adjustment Budget, comments on the 2018/2019 Mid-Year Budget and Performance Assessment report and the following was also taken into consideration;

- a) Revenue Reports on all revenue streams of Dr Nkosazana Dlamini-Zuma Local Municipality / allocation and grant receipts and expenditure for the past six months,
- i) The Budget Versus Actual Expenditure report on all budgeted votes / budget statement
  - ii) Service delivery implementation plan as it sets the service targets and performance indicators for Dr NDZ Municipality
  - iii) Section 71 reports as submitted to National and Provincial Treasury which are used by the National Treasury and other stake holders for budget monitoring purposes
  - iv) Approved grant roll overs

#### **4. ADJUSTMENTS BUDGET TABLES**

Adjustment Budget Tables extracted from financial system, B Schedule version 6.2 attached

## **PART 2 – SUPPORTING DOCUMENTATION**

### **1. ADJUSTMENTS TO BUDGET ASSUMPTION**

<b>Description</b>	<b>Original Budget 2018/8019</b>	<b>Adjustment Budget 2018/2019</b>
Total revenue	-204 831 139	-210 682 426
INEP Grant	-13 540 000	-13 540 000
Operating Expenditure	167 723 454	168 316 888
<b>Surplus/ (Deficit) before capital</b>	<b>-50 647 685</b>	<b>-55 905 538</b>
Capital Expenditure	64 582 240	72 287 219
Electrification	13 540 000	13 540 000

The total revenue has been adjusted upwards by 3% when compared to the original budget and that excludes the accumulated surplus of R28 million that the Municipality has budgeted to fund the shortfall on the adjustment budget. The contributing factor to this increase is the roll-over grant for Municipal demarcation transitional Grant (MDTG) of R5.9 million, R244 500 for work study and additional grants of which is R500 000 from the department of

Cogta. Capital revenue has been adjusted upwards by 10,6% when compared to the original budget and the contributing factor to that is the funding from the municipality's accumulated surplus that has been made available to fund the municipality's capital budget.

The municipality has received a letter from the Department of Human settlement stating the municipality will receive a revenue from them to fund the Bhidla housing project that is in progress in the municipality. Because of the accounting treatment and some regulation, the municipality will not include that money on its budget as they will be not owning these housing at the end of the day but they will be only owned by the department of human settlement the municipality will only be acting as an agent in this project and the municipality will be not receiving the money upfront as other funding like MIG and Electrification but the funding will be based on the invoices for the work done from the service provider.

The total operating expenditure has been adjusted upwards by 0,3% when compare to the original budget, the contributing factor to that is the electrification project that needed to be funded internal because of the insufficient funds the municipality received from INEP. Since the municipality also act as an agent when it comes to electrification projects, it is not allowed to capitalise such projects as it is owned by Eskom, therefore the municipality has to expense all the expenditure that will be incurred against the electrification projects. Based on the explanation given above the municipality had to budget for the additional funding of R4,3 million on electrification projects under operating expenditure, that is the reason why the municipality's operating expenditure has increased

## **2. ADJUSTMENTS TO BUDGET FUNDING**

For Dr Nkosazana Dlamini Zuma Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times, strong revenue and expenditure management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with developed backlogs and poverty.

The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices must be made in relation to tariff increase and balancing expenditure against realistically anticipated revenue.

The operational and capital budget is typically funded by Grants and the revenue generated by the Municipality. The municipality has a total budget of R 223,2 Million including rollover grants. That revenue will be used to fund the operational expenditure of R168,3 million, Electrification of R13,5 million and capital expenditure of R73,3 million. The municipality has

also used its own accumulated surplus to fund the expenditure difference as per the reconciliation of the accumulated surplus in table B8 of the adjusted budget tables.

## **2.1 Adjustment to main operating revenue by source**

The major contributing to the revenue by source is grants; the municipality has a low collection on rates, refuse, traffic fines, and other revenue. This is an indication that the municipality is highly dependent on grants, the contributing factor on this dependence is that most of Dr NDZ Municipal communities are in rural areas as a result the municipality is not generating any revenue from them.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed to the municipality. Furthermore, the Municipality has undertaken various customer care initiatives to ensure that the municipality truly involves all citizens in the process of ensuring a people lead government. Amongst other things that the municipality has done is that of strengthening the municipality's debt collection unit. The collection unit is following on customer with the collection process mostly on customers where they have been no payment to account for a number of months, which we have seen responses with customer settling their account in full and other coming forward to make arrangements. The municipality is doing everything in its powers to collect the outstanding debts from customers and to decreasing the aging debt.

The municipality is planning to recover cash in terms of a debt collection strategy from consumers to ensure sufficient cash is available to meet daily requirements.

## **3. ADJUSTMENTS TO EXPENDITURE ON ALLOCATIONS AND GRANTS PROGRAMMES**

The following table indicates the municipality's adjustment on allocation and grants programmes.

**Allocations and Grants Table**

<b>Name of Grant</b>	<b>Original Budget 2018/19</b>	<b>Adjustments</b>	<b>Adjustment Budget 2018/19</b>
Equitable share	111 162 000		111 162 0000
Municipal Infrastructure Grant (MIG)	26 666 000		26 666 000
Electrification	13 540 000		13 540 000

Financial Management Grant	3 870 000		3 870 000
Expanded Public Works Program	1 596 000		1 596 000
Provincialization of Libraries	2 514 000		2 514 000
Community Library Services	950 000		950 000
Maintenance of Sport Facilities Grant	58 000	-8 000	50 000
Operational support for Thusong		500 000	500 000
<b>TOTAL</b>	<b>160 356 000</b>	<b>492 000</b>	<b>160 848 000</b>

The municipality's allocation for 2018/2019 that was gazetted has increased by R492 000 to R 160,8 million and that is because of new additional grants of which is Thusong Community service Centre grant.

**National Rollover Grants:**

- Municipal Demarcation Transition rolled over Grants has been reduced by R1,1 million to R 5,9 million because of funds being withheld by National Treasury.

**Provincial Rollover**

- Work Study Exercise Grant roll over application of R244 500 was approved.

**4. ADJUSTMENTS TO ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY**

The municipality does not have grants transfers or allocations to another municipality or institutions.

**5. ADJUSTMENT TO COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS**

- There have been no adjustments on Councilor's remuneration as they need to be paid their backpay for their upper limits as per the gazette from Cogta.
- There have been no adjustments made on Basic salaries and benefits for employees and the municipality will look thorough on the number of personnel and make sure that the relevant table in A1 Schedule is populated correctly on draft budget.

## **6. ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN**

Service Delivery and Budget Implementation Plan Report Attached

## **7. ADJUSTMENTS TO CAPITAL EXPENDITURE**

Capital expenditure has been adjusted upwards by 10,6% when compared to the original budget that was approved. The reason to that is that there are projects that were multi-year/rolled over projects from previous financial year to the current financial year and those projects are being funded by accumulated surplus from 2017/18 financial year and other savings that the municipality has made from cutting down on some items in operating expenditure as the municipality had already received the allocation for 2018/19 financial year and it was not sufficient for the municipality to render services to its communities.

## **8. OTHER SUPPORTING DOCUMENTS**

### **8.1 Operating Expenditure**

The Municipality's expenditure framework for the 2018/19 adjustment budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan and
- Operational gains and efficiencies will be directed to funding the capital budget and other core services.

### **8.2 Financial Modelling and Key Planning Drivers**

As part of the compilation of the 2018/19 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2018/19 MTREF:

- Municipal growth

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2018/19 budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

### **8.3 Overview of alignment of adjustment budget with IDP and SDBIP**

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the

Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP but must also conduct its affairs in a manner which is consistent with its IDP.

## **9. Municipal Manager's Quality Certificate**

Municipal Managers quality certificate attached.



## Quality Certificate

I, N C Vezi Municipal Manager of Dr Nkosazana Dlamini Zuma Municipality hereby certify that the Adjustment budget and supporting documentation for 2017/2018 financial year 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 documentation are consistent with the Integrated Development plan of the Municipality.

Print Name: N C Vezi

Municipal Manager of Dr Nkosazana Dlamini Municipality, KZN436

Signature:  \_\_\_\_\_

Date: 22-02-2018