



LETSEMENG LOCAL  
MUNICIPALITY

## ADJUSTMENT BUDGET

# 2024 -25



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## 1. Glossary

**Adjustment Budget** – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**Budget** – The financial plan of the Municipality.

**Budget Related Policy** – Policy of a municipality affecting or affected by the budget, such as the tariffs policy and rates policy

**Capital Expenditure** – Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

**Cash Flow Statement** – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period.

**DORA** – Division of Revenue Act. Annual piece of legislation that shows the amount of allocations from national to local government.

**Equitable Share** – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**Fruitless and wasteful expenditure** – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GRAP** – Generally Recognised Accounting Practice. The new standard for municipal accounting.

**IDP** – Integrated Development Plan. The main strategic planning document of the Municipality.

**KPI's** – Key Performance Indicators. Measures of service output and/or outcome.

**MFMA** – The Municipal Finance Management Act – no 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium-term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations.

Also includes details of the previous and current years.

**Operating Expenditure** – Spending on the day-to-day expenses of the Municipality such as salaries and wages.

**Rates** – Local Government taxation based on an assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** – The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

**Vote** – One of the main segments into which a budget is divided, usually at directorate/department level.

## **2. In Year Report**

### **2.1. Resolution**

*To be Attached once Approved by Council*

### **2.2. Executive Summary**

#### **Purpose of the report**

To seek approval from the Council on the adjustments proposed to the 2024/2025 Original Operational and Capital Budget.

To set out the options available to the Letsemeng Local Municipality (hereinafter referred to as LLM) to fund the adjusted capital budget and to improve the municipality's cash flow position.

#### **Legislative background**

Section 28 (1) of the Municipal Finance Management Act 56 of 2003 (MFMA) allows the municipality to revise its approved annual budget through an adjustments budget.

Section 28 (2) of the MFMA further stipulate that an adjustments budget –

- a) Must adjust the revenue and expenditure estimates downwards if there is a 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 where 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.

## Tabling of the budget adjustment at municipal council

According to section of 28 (4) of the MFMA “only the Mayor may table an adjustments budget in the municipal council” subject to certain limitation.

Section 28 (5) of the MFMA further dictates that the following information must be attached when adjustments budget is so tabled:

- a) An explanation of 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;
- d) Any other supporting documentation that may be prescribed.

### 3. Budget adjustment report

During the first half of the period under consideration the municipality was able to attain average payment level of 35%. This against the target of 70% assumed during the 2024/2025 budget period. The inability to attain 70% was as a result of consumers living in a poorer conditions on the community in Letsemeng Municipality and who do not pay due to financial constraints hence some of those people are part of indigents registered and approved by the municipality. However, LLM intends to encourage these people to pay.

Consumer Price Index (CPI) is expected to stay within the targeted range of 6% during the remaining budget period; it is expected that the inflation rate will be on the upswing towards the end of the budget year (although within the targeted range).

The increase in price of electricity and some extent water, did not lead to a reduction in the quantity demanded of electricity and water, meaning that the demand of electricity and water is relatively inelastic, the risk posed by this position is that considering that the price of these commodities grew at a rate higher than inflation (CPI) which is a benchmark for salary demands, eventually more and more consumers may start experiencing difficulty in paying for these service leading to increase in both value and number of unpaid accounts.

The following key components were used in terms of budgeted revenue and expenditure of the municipality:

- National Treasury MFMA Budget Circular 126
- Electricity Tariff increases as applied to National Electricity Regulator of South Africa
- Latest Valuation roll in terms of Municipal Property Rates Act, Act 6 of 2004
- Municipality's indigent policy
- Tariff Policy of the Municipality
- Tariff Increases for Water, Refuse and Sewerage
- Balance budget constraints – the municipality must not budget for a deficit
- Funding of the budget as based on section 18 and section 19 of Municipal Finance Management act, act 54 of 2003
- South African Local Government Bargaining Council collective agreement on salaries

#### 4. Proposed adjustment budget

The total approved revenue budget for Letsemeng Municipality for period 2024/2025 amounts to R244 million and Adjusted Revenue budget for 2024/2025 amount to R240 million.

The breakdown is as follows in R'000:

	Original Budget	Adjustment	Adjusted Budget 2024/2025
Total Revenue (Including Operational and Capital Grants)	R286 958	(R3,823)	R283 136
Total Operating Expenditure (Including Non-Cash Items)	R244 146	(R3 652)	R240 494
Total Capital Budget	R 43 047	-	R 43 047

#### 5. Revenue management

Outlined below is the narration of the above-mentioned operating revenue adjustment as per revenue by source:

## Adjustment budget 2024/2025

Description	Ref	Budget Year 2024/25									Budget Year +1 2025/26	Budget Year +2 2026/27
		Original Budget	Prior Adjusted 3	Accum. Funds 4	Multi-year capital 5	Unfore. Unavoid. 6	Nat. or Prov. Govt 7	Other Adjusts. 8	Total Adjusts. 9	Adjusted Budget 10	Adjusted Budget	Adjusted Budget
R thousands	1	A	A1	B	C	D	E	F	G	H		
<b>Revenue By Source</b>												
<b>Exchange Revenue</b>												
Service charges - Electricity	2	43,246	-	-	-	-	-	-	-	43,246	45,236	47,271
Service charges - Water	2	20,061	-	-	-	-	-	(2,407)	(2,407)	17,654	18,466	19,301
Service charges - Waste Water Management	2	15,512	-	-	-	-	-	(931)	(931)	14,581	15,252	15,938
Service charges - Waste Management	2	15,152	-	-	-	-	-	(1,061)	(1,061)	14,091	14,739	15,403
Sale of Goods and Rendering of Services		169	-	-	-	-	-	301	301	470	491	513
Agency services		-	-	-	-	-	-	-	-	-	-	-
Interest		-	-	-	-	-	-	-	-	-	-	-
Interest earned from Receivables		13,914	-	-	-	-	-	-	-	13,914	14,554	15,209
Interest earned from Current and Non Current Assets		256	-	-	-	-	-	88	88	344	360	376
Dividends		-	-	-	-	-	-	-	-	-	-	-
Rent on Land		-	-	-	-	-	-	-	-	-	-	-
Rental from Fixed Assets		550	-	-	-	-	-	170	170	720	753	787
Licence and permits		6	-	-	-	-	-	(3)	(3)	3	3	3
Operational Revenue		78	-	-	-	-	-	33	33	110	115	120
<b>Non-Exchange Revenue</b>												
Property rates	2	28,755	-	-	-	-	-	-	-	28,755	30,078	31,431
Surcharges and Taxes		-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits		25	-	-	-	-	-	(13)	(13)	13	13	14
Licences or permits		-	-	-	-	-	-	-	-	-	-	-
Transfer and subsidies - Operational		98,416	-	-	-	-	-	-	-	98,416	100,366	105,612
Interest		8,178	-	-	-	-	-	-	-	8,178	8,554	8,939
Fuel Levy		-	-	-	-	-	-	-	-	-	-	-
Operational Revenue		-	-	-	-	-	-	-	-	-	-	-
Gains on disposal of Assets		-	-	-	-	-	-	-	-	-	-	-
Other Gains		-	-	-	-	-	-	-	-	-	-	-
Discontinued Operations		-	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>244,317</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,823)</b>	<b>(3,823)</b>	<b>240,495</b>	<b>248,980</b>	<b>260,919</b>

### Property rate

Property rates is a statutory tax charged on all property owners within the jurisdiction of the Municipality, it is imposed in accordance with section 229 of the Constitution of South Africa and Municipal Property rates act, act 6 of 2004 (MPRA). In terms of MPRA the municipality must prepare a valuation roll after every 5 financial year, Letsemeng Local Municipality implemented the valuation roll in accordance with MPRA prescripts on the 1 July 2018. The new valuation roll will be implemented on 1 July 2023. Revenue from property rate remain unchanged with amount of R28 million.

### Sales of Electricity

Letsemeng Local Municipality target indigent households as per the approved indigent register for free basic electricity, all indigent households receive 50Kwh monthly. We sell both conventional and pre-paid electricity. Electricity revenue remain unchanged with an amount of R43 million.



### *Sales of Water*

There is inclining block tariff structure implemented for water services, indigent households receive the free 6kl per month of water. Water revenue has changed to an amount **of R17 million from R20 million.**

### *Waste Management*

Waste removal charges are charged at a flat rate, irrespective of litres of waste removed, Waste removal is provided for free to all the households who are indigent. All residents solid waste is removed once a week. Waste management amount changed **from R15 million to R14 million.**

### *Waste Water Management*

Sanitation charges are charged at a flat rate, irrespective of the quantity of water used / consumed Free Sanitation is only provided to indigent households as per the council approved Indigent policy, there is no inclining tariff structure for sanitation consumption, Waste management amount **changed from R15 million to R14 million.**

Operational Revenue represents all revenue generated, which is specified on the prescribed in terms of the MFMA requirements such as the following:

- Interest on Investments
- Interest on Arrear Accounts
- Fines
- Rental Fees
- Sundry Income
- Licence and Permits

### **External interest**

Interest earned on investment has changed with an amount **of R88 000 to an amount of R344 000** and outstanding debtors remain constant.

### **Rental revenue**

Other revenue comprises of municipal activities on letting of properties which has changed based on the demand of municipal properties from community members.

#### a) Review of credit control and debt collection policies

The Collection Policy is under review and will be submitted in March with draft Budget 2025/2026. A review of certain components of the policy was considered necessary to achieve a higher collection rate and assist the current debt write off process.

The 2024/2025 MTREF had been prepared on the basis of achieving an average revenue collection rate of 50% on current billings. In addition, the collection of debt in excess of 90 days has been prioritised as a specific strategy, in order to improve the Municipality's cash position.

### 6. Expenditure management

The total approved expenditure budget for Letsemeng Municipality under 2024/2025 amounts to R244 million, excluding capital expenditure and Adjusted Expenditure 2024/2025 amounts to R240 million.

The breakdown is as follows in R'000:

Expenditure Name	Original Budget Amount in R'000	Adjustment Amount in R'000	Adjusted Expenditure Amount in R'000
Employee Related Costs	R82 956	(R900)	R82,056
Remuneration of Councillors	R5 713	(R700)	R5 013
Debt Management	R24 940	-	R24 940
Depreciation for Assets	R34 815	-	R34 815
Finance Charges	R10 000	R4 000	R14 000
Bulk Purchases (Eskom, Water Boards)	R39 862	-	R39 862
Inventory Consumed	R12 843	(R5 277)	R7 566
Contacted Services	R17 771	(R1 491)	R16 279
Operational costs	R15 246	R715	R15 962
<b>Total Expenditure</b>	<b>R244 146</b>	<b>(R3 652)</b>	<b>R240 494</b>

Outlined below is the narration of the above-mentioned operating expenditure adjustment as per expenditure by source:

***Employee costs***

Employee related costs is adjusted to R82.05 million from R82.95 million

***Remuneration of Councillors***

Remuneration of Councillors is adjusted from R5.7 million to R5 million based on the gazetted upper limits

***Finance charges***

Finance charges is adjusted from R10 million to R14million due to non-payment of creditors due to financial constraints

***Inventory Consumed***

Inventory consumed is adjusted to R7.5 million

***Contracted services***

Contracted services is adjusted to R16.279 million

***Operational costs***

Operational costs are adjusted to R15.9 million and they include the following items,

Advertising costs, hiring of equipment, consulting fees, general spares at stores for electrical department and plumbing division, rental of copiers, insurance, petrol and diesel, printing and stationery, telephone, and maintenance of vehicle, tyres and engines on municipal fleet, legal fees, external audit fees, security services.

## 7. Analysis of Capital Budget

There is no adjustment on the transfer of capital grants and internally generated funds.

Description	Original Budget	Adjustment	Total Adjusted Budget
Capital expenditure	R43 047	-	R43 047

## 8. Adjustment budget tables

### Explanatory Notes to Table B1

Table B1 is a summary of the budget of Letsemeng Local Municipality that gives an overview of the of the budget, it includes, the following key aspects

**Financial Performance:** This is a summary of income statement of the Municipality

**Capital Expenditure and funding sources:** This gives a brief overview of the capital expenditure and its funding sources

**Financial Position:** This is the balance sheet of Letsemeng Local Municipality

**Cash Flow:** This gives a brief overview of the Cash flow of the Municipality

**Asset Management:** This is the overview of the total assets of the Municipality

**Free Services:** This section gives the total amount of free basic services as provided by the municipality.

This is the most important table as it gives users of the budget a “snapshot” of what is going to follow in the next nine (09) main table

### Explanatory Notes to Table B2

Table B2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification.

Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table B4 as Table B4 exclude capital transfers

### **Explanatory Note to Table B3**

Table B3 is an overview of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. Profits made on these services are used to subsidise non-trading services

### **Explanatory note on table B4**

Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the budgeted revenue of Letsemeng Local Municipality

Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government.

Major component of expenditure relates to employee costs, which accounts for 54% of the total expenditure

### **Explanatory note on Table B5**

Table B5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations.

### **Explanatory note to table B8**

The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.

## 9. Part 2 – Supporting documentation

### 9.1. Adjustment budget assumptions

Municipal Financial Management Act (MFMA) mentions six (6) steps (i.e. Planning, Strategizing, Preparing, Tabling, Consulting and Finalising/ Adopting) that the municipality must follow in order to prepare the annual budget that is credible. The planning and strategizing processes started with the preparation of budget timelines as required by MFMA and IDP review process plan. Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the annual budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The adjustment budget was prepared based on realistically anticipated revenue and cost containment measures. Below are some of the key assumptions of the budget.

- Economic climate and indigent levels within the Municipality will remain the same / constant for major part of the financial year given the limited economic activities within the Municipality
- Cash flow projections will strictly be maintained to ensure that the municipality will meet its financial obligations
- Operating costs will be maintained at current levels or reduced as cost containment measures and where there is material decrease in revenue collection rate, expenditure will have to be reduced at the same proportion

### 9.2. Adjustment to budget funding

MFMA section 18 states that the expenditure of the budget may only be funded from:

- Realistically anticipated revenue to be collected
  - Cash-backed accumulated funds from Previous years' surpluses not committed for other purpose
  - Borrowed funds, but only for capital budget referred to in section 17(2)
- Letsemeng Local Municipality adjusted operating budget is funded from:

- Grants
- Service Charges
- Other Revenue

The capital budget excluding internally generated funds of the Municipality is R 43 047 000 and is funded from

- Municipal Infrastructure Grant
- Water Services Infrastructure Grant

### **9.3. Adjustment to Expenditure on Allocations and Grant Programme**

The Municipality budgeted for the following operating grants:

- Financial Management Grant
- Expanded Public Works Programme
- Equitable Shares

### **9.4. Adjustment to Allocations made by the Municipality**

Letsemeng Local Municipality uses equitable shares to subsidise indigent households,

All indigent households receive 6 kl of water and 50 kw/h of electricity, rebate on sanitation and refuse removal.

### **9.5. Adjustment to Councillors Allowances and Employees benefits**

Municipal Systems Act requires the Municipal Manager to develop a Staff establishment for the Municipality within a policy framework determined by the municipal council and subject to any applicable legislation. The Municipal Manager Must Submit the staff establishment to council for consideration and approval. The Municipal Systems act further requires the Municipal Manager to provide a job description for each post on the staff establishment and to attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation. There is an adjustment made on Employee benefits and Councillors remuneration.

### **9.6. Adjustments to service delivery and budget implementation plan**

The adjustment to the service delivery and budget implementation plan will be tabled to Council after the approval of the adjustment budget.

## 9.7. Adjustment to Capital Expenditure

There is no adjustment to the capital budget in both internally generated funds and funded grant.



## 10. Municipal Manager's quality certificate



OFFICE OF THE MUNICIPAL MANAGER

To whom it may concern

### Quality Certificate for 2024-25 Adjustment Budget

I, Sindiswa Maneli, the Acting Municipal Manager of Letsemeng Local Municipality (FS161), hereby certify that the adjustment budget has been prepared in accordance with section 28 of the Municipal Finance Management Act.

Name : S Maneli

Municipality : Letsemeng Local Municipality

Date : 28/02/2025

Adjustment budget 2024/2025

NOTES

LETSEMENG LOCAL MUNICIPALITY





## LETSEMENG LOCAL MUNICIPALITY

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