

# MFMA

## Budget Adjustment report

**FEB 2018**

**Makhado Local Municipality  
Budget and Treasury**

*Vision: “A Dynamic Hub for Socio – Economic Development By  
2025”*

*Mission: “To ensure effective utilization of economic resources to  
address socio- economic imperatives through mining, tourism  
and agriculture”*



## BUDGET ADJUSTMENT INFORMATION

### Table of Contents

Budget adjustment report as required by section 28 of the MFMA .....	1
1 CHAPTER 1: PROPOSED 2017/18 ADJUSTMENTS BUDGET .....	3
1.1 PURPOSE OF THE REPORT .....	3
1.2 LEGISLATIVE BACKGROUND .....	3
1.3 TABLING OF THE BUDGET ADJUSTMENT AT MUNICIPAL COUNCIL .....	4
2 CHAPTER 2: BUDGET ADJUSTMENT REPORT .....	4
2.1 ECONOMIC BACKGROUND .....	4
2.2 PROPOSED ADJUSTMENT BUDGET .....	5
2.3 REVENUE MANAGEMENT .....	6
2.4 EXPENDITURE MANAGEMENT .....	9
2.5 CAPITAL MANAGEMENT .....	12
3 CHAPTER 3: ANNEXURES (TABLES) .....	15
4 CHAPTER 4: RECOMMENDATIONS .....	15
ANNEXURES enclosed: .....	<b>Error! Bookmark not defined.</b>

# **1 CHAPTER 1: PROPOSED 2017/18 ADJUSTMENTS BUDGET**

## ***1.1 PURPOSE OF THE REPORT***

- To seek approval from the Council on the adjustments proposed to the 2017/2018 Original Operational and Capital Budget.
- To set out the options available to the Makhado Local Municipality (hereinafter referred to as MLM) to fund the adjusted capital budget and to improve the municipality's cash flow position.

## ***1.2 LEGISLATIVE BACKGROUND***

- Section 28 (1) of the Municipal Finance Management Act 56 of 2003 (MFMA) permits the municipality to revise its approved annual budget through an adjustments budget.
  - Section 28 (2) of the MFMA further states 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.*
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### **1.3 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 (4) 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.*

## **2 CHAPTER 2: BUDGET ADJUSTMENT REPORT**

### **2.1 ECONOMIC BACKGROUND**

During the first half of the period under consideration the municipality was able to attain average payment level of 95% on (until Dec 2017) this anticipated 100% assumed during the budget period. The inability to attain 100% was as a result of consumers living in a poorer are who do not pay due to financial constraints hence some of those people are part of indigents registered and approved by the municipality. However, MLM intends to encourage these people to pay

Consumer Price Index (CPI) is expected to stay within the targeted range of 6-7 % during the remaining budget period; it expected that the inflation rate will be on the upswing towards the end of the budget (Although within the targeted range)

The recent 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.

## 2.2 PROPOSED ADJUSTMENT BUDGET

The total approved revenue budget for Makhado Municipality under 17/18 amounts to **R 919.450** Million and Adjusted Revenue budget 17/18 amount to R 968. 530 Million.

The breakdown is as follows in R'000:

	<b>Original Budget</b>	Adjustment	Adjusted Budget 2017/2018
Own Municipal funding	R 503 145	37 332	540 477
Capital Grants	R 116 196	10 203	126 399
Operational Grants	R 300 109	1 545	301 654
<b>TOTAL BUDGET</b>	<b>R 919 450</b>	<b>49 080</b>	<b>968 530</b>

The total approved expenditure budget for Makhado Municipality under 17/18 amounts to R 841.501 million, excluding capital expenditure and Adjusted Expenditure 17/18 amounts to R 889. 081 million

The breakdown is as follows in R'000:

<b>EXPENDIUTE NAME</b>	<b>Original budget Amount in R' 000</b>	<b>Adjustment Amount in R'000</b>	<b>Adjusted Expenditure</b>
Employee related costs	R 282 794	(R 15 000)	R 267 794
Remuneration of councillors	R 25 958	0	R 25 958
Debt impairment	R 10 000	R 54 139	R 64 139
Depreciation for assets	R 95 872	(R 20 000)	R 75 872

Finance charges	R 12 720	0	R 12 720
Bulk purchases (Eskom)	R 212 748	(R 7 000 )	R 205 748
Contracted services/other expenditure.	R 201 409	R 35 441	R 219 949
<b>Total Expenditure</b>	<b>R 841 501</b>	<b>47 580</b>	<b>R 889 081</b>

The format and contents of the adjustment budget and supporting documentation must be in the format as specified by the Municipal Budget and Reporting Regulations. The adjustment budget as submitted herewith contains the applicable adjustment budget table.

### **2.3 REVENUE MANAGEMENT**

The total approved revenue budget for Makhado Municipality under 17/18 amounts to **R 919.450** Million and Adjusted Revenue budget 17/18 amount to R 968. 530 Million.

The breakdown is as follows in R'000:

	<b>Original Budget</b>	<b>Adjustment</b>	<b>Adjusted Budget 2017/2018</b>
Own Municipal funding	R 503 145	37 332	540 477
Capital Grants	R 116 196	10 203	126 399
Operational Grants	R 300 109	1 545	301 654
<b>TOTAL BUDGET</b>	<b>R 919 450</b>	<b>49 080</b>	<b>968 530</b>

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LIM344 Makhado - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - FEB 2018							
Description	Ref	Budget Year 2017/18				Budget Year	Budget Year
		Original	Other	Total	Adjusted	+1 2018/19	+2 2019/20
		Budget	Adjusts.	Adjusts.	Budget	Adjusted	Adjusted
		8	9	10			
R thousands	1	A	F	G	H		
<b>Revenue By Source</b>							
Property rates	2	55 915	-	-	55 915	51 511	62 412
Service charges - electricity revenue	2	317 429	-	-	317 429	323 397	329 477
Service charges - water revenue	2	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-
Service charges - refuse revenue	2	10 021	-	-	10 021	10 592	11 186
Service charges - other							
Rental of facilities and equipment		502			502	531	561
Interest earned - external investments		5 331			5 331	5 634	5 950
Interest earned - outstanding debtors		13 726			13 726	14 509	15 336
Dividends received		-			-	-	-
Fines, penalties and forfeits		1 889			1 889	1 996	2 110
Licences and permits		12 567			12 567	13 284	14 041
Agency services		55 176			55 176	58 321	61 587
Transfers and subsidies		300 109	1 545	1 545	301 654	318 518	333 240
Other revenue	2	30 587	37 331	37 331	67 918	36 584	35 094
Gains on disposal of PPE							
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>803 254</b>	<b>38 876</b>	<b>38 876</b>	<b>842 130</b>	<b>834 878</b>	<b>870 994</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		116 196	10 204	10 204	126 400	121 510	147 147
Transfers and subsidies - capital (in-kind - all)							
<b>Total Revenue</b>		<b>919 450</b>	<b>49 080</b>	<b>49 080</b>	<b>968 530</b>	<b>956 388</b>	<b>1 018 141</b>

**Outlined below is the narration of the abovementioned operating revenue adjustment as per revenue by source**

a) Property rate

Revenue from property rate remain unchanged with amount of R 55.915 million

b) Sales of Electricity

Electricity revenue remain unchanged with an amount of R 317.429 million

c) Sales of Water

Water distribution function has been transferred back to “Vhembe District Municipality” (VDM) as it is a water authority for reporting purposes. Thus the water related income is reverted to the VDM. This has affected MLM actual cash collection levels as water income is received directly in the income account of the VD, However based on the recommendation of Auditor General Agency revenue should be recognised.

d) Vehicle Registration and licensing

Vehicle registration and licensing income is paid to the municipality in various regions is subsequently transferred e Department of Roads and transport at a net of 80%. The municipality receives an agreed commission per SLA. This was adjusted upwards based on increased income recognised.

Service charges include revenue related to Consumption Charges such as:

- Electricity;
- Refuse Removal, (Yearly levy);
- Availability Fees;
  - New Connection Fees;
  - Reconnection Fees;
  - Sundry Income, etc.

Other 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

e) External interest

Interest earned on investment and outstanding debtors remain constant or unchanged.

f) Rental revenue

Other revenue comprises of municipal activities on letting of properties which remain unchanged based on the demand of municipal properties from community members

g) Review of credit control and debt collection policies

- The Collection Policy is under review and submittable in March with draft Budget. A review of certain components of the policy was considered necessary to achieve a higher collection rate and assist the current debt write of process.
- The 2017/18 MTREF had been prepared on the basis of achieving an average revenue collection rate of 89 % 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.
- Debt analysis on our revenue system through Transition customer credit background checks.

## **2.4 EXPENDITURE MANAGEMENT**

The total approved expenditure budget for Makhado Municipality under 17/18 amounts to R 841.501 million, excluding capital expenditure and Adjusted Expenditure 17/18 amounts to R 889. 081 million

The breakdown is as follows in R'000:

<b>EXPENDIUTE NAME</b>	<b>Original budget Amount in R' 000</b>	<b>Adjustment Amount in R'000</b>	<b>Adjusted Expenditure</b>
Employee related costs	R 282 794	(R 15 000)	R 267 794
Remuneration of councillors	R 25 958	0	R 25 958
Debt impairment	R 10 000	R 54 139	R 64 139
Depreciation for assets	R 95 872	(R 20 000)	R 75 872
Finance charges	R 12 720	0	R 12 720
Bulk purchases (Eskom)	R 212 748	(R 7 000 )	R 205 748
Contracted services/other expenditure.	R 201 409	R 35 441	R 219 949
<b>Total Expenditure</b>	<b>R 841 501</b>	<b>47 580</b>	<b>R 889 081</b>

## Outlined below is the Operating Expenditure Adjustments- Table B4

LIM344 Makhado - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - FEB 2018							
Description	Ref	Budget Year 2017/18				Budget Year	Budget Year
		Original	Other	Total	Adjusted	Adjusted	Adjusted
		Budget	Adjusts.	Adjusts.	Budget	Budget	Budget
			8	9	10		
<b>R thousands</b>	1	A	F	G	H		
<b>Expenditure By Type</b>							
Employee related costs		282 794	(15 000)	(15 000)	267 794	282 965	299 725
Remuneration of councillors		25 958	-	-	25 958	25 973	27 480
Debt impairment		10 000	54 139	54 139	64 139		
Depreciation & asset impairment		95 872	(20 000)	(20 000)	75 872	127 384	127 384
Finance charges		12 720		-	12 720	12 932	13 152
Bulk purchases		212 748	(7 000)	(7 000)	205 748	256 109	279 523
Other materials				-	-		
Contracted services		11 000	5 900	5 900	16 900	11 649	12 325
Transfers and subsidies				-	-		
Other expenditure		190 408	29 541	29 541	219 949	206 325	211 343
Loss on disposal of PPE				-	-		
<b>Total Expenditure</b>		<b>841 501</b>	<b>47 580</b>	<b>47 580</b>	<b>889 081</b>	<b>923 337</b>	<b>970 932</b>

### a) General Expenses:

Excluding the accounting adjustments which contribute to the greater proportion of this adjustment some cost items listed below also contribute to general operational expenditure increased by R 47 580 million due to the following reasons.

- Advertising costs, bank charges ,toilet cleaning, consulting fees, general spares at stores for electrical department and plumbing division, hire of vehicles and rental of copiers ,housing scheme expenditure, insurance, petrol and diesel, printing and stationery, telephone , and maintenance of vehicle tyres and engines on old current fleet ,legal fees ,internal and external audit fees ,valuation roll, workmen compensation, security services and demarcation of sites.
- An increase on debt impairment costs by **R 54 139 million** was as the results of possibility that assets will be impaired as recommended by AG

- Bulk purchases for electricity slightly went down by **R 7.0 million** and are mainly the result seasonal changes in towards financial year.
- Contracted services will with increase mainly due increases for compilation of valuation roll, unbundling of completed infrastructure assets as required by professional, and internal and external audit fees.
- Unforeseen expenditures in the second half of the year will have to be funded from the own revenue and though the projected savings.

b) Transfer to Capital Finance

Transfer to capital finance was increased by 8. 885 million as a result of increased capital expenditure requirements. Own funded capital expenditure was reduced due to astringent cash position at the end of December 2017. The assumption made during the initial budget was that own funded capital expenditure will be funded from cash surplus realized from operating budget, with the non-favourable cash flow position, the anticipated savings did not resourcefully materialize.

All projects to be amended also on the SDBIP have to be confirmed with all departments

The net effect of own income funded projects which will not be realised in 17/18 financial year due to non-availability cash resources not available are:

<b>Description</b>	<b>Original Budget</b>	<b>Adjustment</b>	<b>Total Adjusted budget</b>
Own income funded projects	R 47.562 million	R 8.885 million	R 56.417 million

The roll-overs of R 10.203 million 16/17 was approved by National Treasury and our MIG budget has subsequently increased by R 10.203 million

Internal funding for capital has been increased by R 8.885 million

The cash position will remain constrained although collection have increased over the past 12 months

Any underperformance in relation to debtor collections could place upward pressure on the Municipality's ability to meet its major commitments.

## 2.5 CAPITAL MANAGEMENT

### Capital Expenditure

The adjusted capital expenditure for 2017/2018 amounts to **R 182.816 million** which is upwards projection in relation to the first half of the year mainly due to approved rollover of **R 10.203 million** plus **R 8.885 million** additional incomes for MIG projects and Reallocation of sports facilities.

SUMMARY AS PER DEPARTMENT	APPROVED BUDGET IN R'000	ADJUSTMENT	ADJUSTED CAPEX
PLANNING AND DEVELOPMENT	R 2 370	(R 2 130)	R 240
TECHNICAL SERVICES	R 149 938	R24 761	R 174 699
COMMUNITY SERVICES	R 2 380	(R 1 752)	R 628
FINANCE	R 4 350	R 300	R 4 650
CORPORATE SERVICES	R 4 210	(R 1670 )	R 2 540
REGIONAL OFFICES	R 510	(R 450)	R 60
<b>TOTAL</b>	<b>R 163 758</b>	<b>R 19 058</b>	<b>R 182 816</b>

Makhado Municipality summarised capital expenditure report per department as at 31 December 2017

<b>SUMMARY AS PER DEPARTMENT</b>	<b>APPROVED BUDGET IN R'000</b>	<b>EXPENDITURE R'000</b>	<b>VARIANCES</b>	<b>PERCENTAGE SPENDING</b>
Planning and development	R 2 370	R 199	R 2 171	8%
Technical services	R 149 938	R 85 491	R 61 447	57%
Community services	R 2 380	R 178	R 2 202	7%
Finance	R 4 350	R 1 537	R 2 813	35%
Corporate services	R 4 210	R 124	R 4 068	2%
Regional offices	R 510	0	R 510	0%
	<b>R 163 758</b>	<b>R 87 529</b>	<b>R 76 229</b>	<b>53%</b>

Capital expenditure from internally generated funds is under severe pressure and management will have to continue with external funding measures for long term electricity infrastructure developments due to increased electricity demand by households.

Should external revenue sources be increased, to supplement the capital budget it may have an unfavourable effect on the growth of the municipality in terms of infrastructure development in the next several years.

**SUMMARY OF ALL GRANTS 2017/2018 AS AT 31 DECEMBER 2017**

<b>Grant Name</b>	<b>APPROVED ALLOCATION</b>	<b>BE RECEIVED TO DATE (R)</b>	<b>STILL TO BE RECEIVED</b>
MIG	R 91,196,000	R 75,345,000	R 15,851,000
INEP	R 25 000 000	R 20, 000,000	R 5 ,000,00
MDTG	R 2,282,000	R 2, 282, 000	0
FMG	R 1,700,000	R 1, 700, 000	0
E P W P	R 2 048 000	R 1, 433,000.	R 615,000
EQUITABLE SHARE	R 294,079,000	R 215,617,000.	R72,598,000
<b>TOTAL</b>	<b>R 416,305,000</b>	<b>R 316,377,000</b>	<b>R 99 928 ,000</b>

### Infrastructure services

To promote spending over next six months internal processes have been fast tracked in technical services, supply chain services and corporate services to promote the spending of funds in the following projects in the following areas :

#### INEP PROJECTS

<b>INEP ALLOCATION</b>				
<b>Description</b>	<b>Source</b>	<b>Final budget</b>	<b>Expenditure</b>	<b>Percentage in spending</b>
Rathidili Phase 2( construction phase)	INEP	R 8 234	R 1 664	20%
Madabani phase2 ( construction phase)	INEP	R 1 039		0%
Maname phase2( construction phase)	INEP	R 837	R 693	83%
Mavhunga phase2 ( construction phase)	INEP	R 2 480		0%
Electrification of Swongozwi Village	INEP	R 1 500	R 523	34%
<b>Total</b>		<b>R 25 000</b>	<b>R 2 880</b>	<b>12%</b>

Allocations for Infrastructure projects remains in line with MIG allocations for 17/18 financial period

Capital Budget will be funded from the following remaining sources of income, of which net transfers from own income will be largely dependent of collection of revenue from consumers over next 6 months:

- The cash flow projection assumes prevailing stable environment, does take into consideration any change in neither interest rate nor considerable allocations of funds from neither National or Provincial government except for the one in the Gazette
- This will largely depend on the delivery times of materials and construction periods of capital projects of magnitude and facilitation of supply chain and corporate services processes on the remaining appointments of service providers.

- The next Medium Term Revenue and Expenditure Framework will be under pressure to ensure that tariff settings for the various services remain within acceptable norms. When considering the projected internal generated reserves it is expected that a new external loan will have to be taken up to supplement capital expenditure for the next three years which will further affect tariff settings.
- It is therefore important that the impact of increased expenditures for each service delivery area carefully be considered with the next budget cycle to ensure that each service remains financially sustainable over the medium term with the least impact on the communities. The adjustment budget will have significant effect on the service delivery targets and performance indicators of Council thus revision is required per department.

**CHAPTER 3: LIM344 Makhado - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) –from page 17 to 18**

Thus cash low forecasts will significantly decline over the next 6 months due to the following reasons:

- Ensuring Eskom debt is settled monthly to avoid penalties and grid load shedding implementable to all municipalities who default for a period longer than 30 days
- For current year interventions have been taken to ensure that strategic income dependent projects are initiated where possible as per SDBIP of 2016/17 while attempting to maintain reasonable liquidity levels over the next 6 months.
- The total cash received includes cash received for Operating Activities such as the sale of electricity fees charged for refuse removal and sanitation as well as other service charges.
- Total Income also comprises of made up of the following: the service Charges, consisting of income for connection and re-connection fees.

### **3 CHAPTER 4: RECOMMENDATIONS**

#### **RECOMMENDATION (MUNICIPAL MANAGER)**

1. That the 17/18 annual budget be adjusted in February 2018 in terms of Section 28 of the MFMA
2. THAT the 2017/2018 Adjustment Budget be submitted to the National and Provincial Treasury via the Mayor.
3. Any errors in the annual budget together with the data strings submitted on National treasury portal for 2017/2018 is corrected as recommended by National treasury and Provincial treasury for compliance purposes.

4. That the council note that the adjustment budget for the income and expenditure projections for the financial year ending 30 June 2018 will be adjusted.
5. Council take note that, depreciation and debt impairment provision was taken into consideration which are non-cash items amounting **R 114 011 591.13**.
6. That the amount of **R 10.2 million** be added to the annual budget for 2017/2018 as approved rollover for 2016/17 financial year for MIG Projects and R 603 for MTDG grant for mSCOA projects also be added to annual budget for 2017/2018.
7. That the amount of R 7 431 707.25 be added to Capital budget for 2017/2018 for Relocation of Rugby sports facilities.

Schedule B4-Adjustments Budget Financial Performance (revenue and expenditure) Description R thousands	Ref	Budget Year 2017/18					Budget Year +1 2018/19	Budget Year +2 2019/20
		Original Budget	Prior Adjusted	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		3	8	9	10			
	1	A	A1	F	G	H		
<b><u>Revenue By Source</u></b>								
Property rates	2	55 915	–	–	–	55 915	51 511	62 412
Service charges - electricity revenue	2	317 429	–	–	–	317 429	323 397	329 477
Service charges - water revenue	2	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–
Service charges - refuse revenue	2	10 021	–	–	–	10 021	10 592	11 186
Service charges - other					–	–		
Rental of facilities and equipment		502			–	502	531	561
Interest earned - external investments		5 331			–	5 331	5 634	5 950
Interest earned - outstanding debtors		13 726			–	13 726	14 509	15 336
Dividends received		–			–	–	–	–
Fines, penalties and forfeits		1 889			–	1 889	1 996	2 110
Licences and permits		12 567			–	12 567	13 284	14 041
Agency services		55 176			–	55 176	58 321	61 587
Transfers and subsidies		300 109		1 545	1 545	301 654	318 518	333 240
Other revenue	2	30 587	–	37 331	37 331	67 918	36 584	35 094

Gains on disposal of PPE					–	–		
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>803 254</b>	–	<b>38 876</b>	<b>38 876</b>	<b>842 130</b>	<b>834 878</b>	<b>870 994</b>
<b><u>Expenditure By Type</u></b>								
Employee related costs		282 794	–	(15 000)	(15 000)	267 794	282 965	299 725
Remuneration of councillors		25 958		–	–	25 958	25 973	27 480
Debt impairment		10 000		54 139	54 139	64 139		
Depreciation & asset impairment		95 872	–	(20 000)	(20 000)	75 872	127 384	127 384
Finance charges		12 720			–	12 720	12 932	13 152
Bulk purchases		212 748	–	(7 000)	(7 000)	205 748	256 109	279 523
Other materials					–	–		
Contracted services		11 000	–	5 900	5 900	16 900	11 649	12 325
Transfers and subsidies					–	–		
Other expenditure		190 408	–	29 541	29 541	219 949	206 325	211 343
Loss on disposal of PPE					–	–		
<b>Total Expenditure</b>		<b>841 501</b>	–	<b>47 580</b>	<b>47 580</b>	<b>889 081</b>	<b>923 337</b>	<b>970 932</b>
<b>Surplus/(Deficit)</b>		<b>(38 247)</b>	–	<b>(8 704)</b>	<b>(8 704)</b>	<b>(46 951)</b>	<b>(88 460)</b>	<b>(99 938)</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		116 196		10 204	10 204	126 400	121 510	147 147
<b>Surplus/(Deficit) attributable to municipality</b>		<b>77 949</b>	–	<b>1 500</b>	<b>1 500</b>	<b>79 449</b>	<b>33 050</b>	<b>47 209</b>
Share of surplus/ (deficit) of associate					–	–		
<b>Surplus/ (Deficit) for the year</b>		<b>77 949</b>	–	<b>1 500</b>	<b>1 500</b>	<b>79 449</b>	<b>33 050</b>	<b>47 209</b>