**MANDENI MUNICIPALITY (KZN291)**

**mSCOA SPECIAL ADJUSTMENT BUDGET 2024/25**



MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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# Part 1 –mSCOA Adjustment Budget

## Council Resolutions

**Resolution No:C104 COUNCIL: 08/04/2025**

On the 08th April 2025 the Council of Mandeni Municipality met at Mandeni Council Chamber to consider the Adjustment Budget of the municipality for the financial year 2024/25. The Council approved and adopted the following resolutions:

1. The Council of Mandeni Municipality, acting in terms of section 28 (2) of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
   1. The mSCOA Special Adjustment budget of the Municipality for the financial year 2024/25 and the multi-year and single- year capital appropriations as set out in the following tables of the budget document:
      1. Adjustments Budget Summary as contained in Table 2 on page 11;
      2. Adjustments Budget Financial Performance (revenue and expenditure by standard classification) as contained in Table 3 on page 13;
      3. Adjustments Budget Financial Performance (revenue and expenditure by municipal vote) as contained in Table 4 on page 14.
      4. Adjustments Budget Financial Performance (revenue by source and expenditure by type) as contained in Table 5 on page 15; and
      5. Adjustments Multi-year and single-year capital appropriations by Municipal vote and standard classification and associated funding by source as contained in Table 6 on page 18.
   2. The Adjustments budget financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables of the budget document:
      1. Adjustments Budget Financial Position as contained in Table 7 on page 20;
      2. Adjustments Budget Cash Flows as contained in Table 8 on page 23;
      3. Cash backed reserves and accumulated surplus reconciliation as contained in Table 9 on page 24;
      4. Assets management as contained in Table 10 on page 26; and
      5. Basic Service delivery measurement as contained in Table 11 on page 29

## Executive Summary

In terms of Section 72. (1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (hereinafter referred to as the MFMA), the accounting officer of a municipality must by 25 January of each year-

1. Assess the performance of the municipality during the first half of the financial year, taking into account-
   1. the monthly statements referred to in section 71 for the first half of the financial year;
   2. the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
   3. the past year's annual report, and progress on resolving problems identified in the annual report; and
   4. the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and
2. submit a report on such assessment to:
   1. the mayor of the municipality;
   2. the National Treasury; and
   3. the relevant provincial treasury.
   4. Thereafter, the mayor must, in terms of Section 54. (1)
3. Consider the report;
4. Check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan;
5. Consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following the approval of an adjustments budget;
6. Issue any appropriate instructions to the accounting officer to ensure-
   1. That the budget is implemented in accordance with the service delivery and budget implementation plan; and
   2. That spending of funds and revenue collection proceed in accordance with the budget
7. Identify any financial problems facing the municipality, including any emerging or impending financial problems; and
8. Submit the report to the council by 31 January of each year

The Adjustments Budget must be accompanied by the following in accordance with Section 28(5):

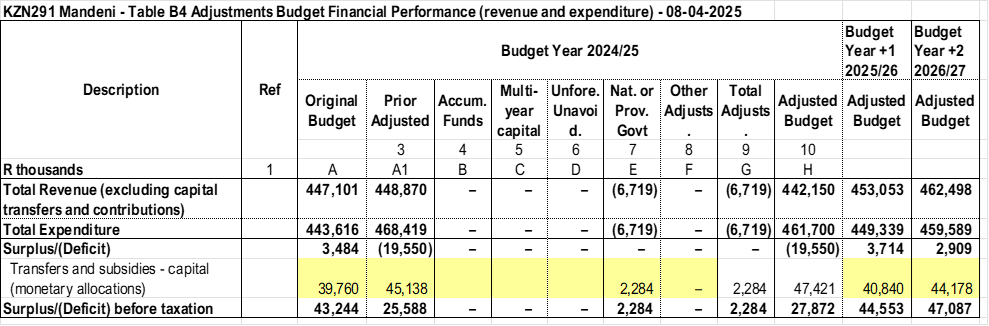
"a) an explanation how the adjustments budget affects the annual budget;

1. a motivation of any material changes to the annual budget;
2. an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years;

and d) any other supporting documentation that may be prescribed.”

An Adjustments Budget according to Section 28(3 and 6): "(3) An Adjustment Budget must be in a prescribed format (6) Municipal taxes and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan - section 28(6).”

The following Table represents an Executive Summary for the 2019/20 Adjustment Budget;

****

Total Revenue for 2024/25 has been decreased from R448,9 million to R442,2 million with an adjusted budget of R6,7 million.

Adjustment Budget has considered the Stopping and Reallocation of grants as publicized in DORA as per Government Gazette No. 52381 dated 25 March 2025 by National Treasury is to be appropriately allocated in the special adjustment budget.

i). Municipal Disaster Response Grant of R5,2 million.

ii). Integrated National Electrification Programme (INEP) of (R7.7 million).

Total adjusted operating expenditure for the 2024/25 financial year has been appropriated at R322.3 million and translates into a surplus of R3 million, when compared to the 2024/25 Prior Adjusted budget, the adjusted operational expenditure has been increased by 4.7 per cent in the 2024/25 adjusted budget.

**1.3 ADJUSTMENT BUDGET BACKGROUND**

The Municipal Council has recently approved an Adjustment Budget for 2024/25 financial year which was Tabled to council on the 08th April 2025 in accordance with Section 28 of the MFMA.

Tabling of Adjustment budget considered the following items:

1. Final Integrated Development Plan (IDP)
2. mSCOA Annual Adjustment Budget 2024-25
3. Budget related policy - Imposing any municipal tax and setting any tariffs as may be required for the budget year
4. Resolutions - Approving Adjustment Budget

Government Gazette is published in accordance Section 18 and 19 of the Division of Revenue Act, 2024, (Act No. 24 of 2024) (DoRA) as amended by the Division of Revenue Amendment Act, 2024 (DoRAA) (Act No. 48 of 2024), and provides information regarding the adjustment of allocations to municipalities in the 2024/25 financial year.

1. The stopping and re-allocation of conditional grants to municipalities made in terms of section 18 and 19 of the DORAA
2. Technical Adjustment (correction of errors in terms of section 15 of the Act on conditional allocation to municipalities,
3. Conversion of allocations between schedules in terms of section 20 of the DORAA

This is necessitated by the need for the stopping ad re-allocation of conditional grants to municipalities made in terms of sections 18 and 19 of DoRA and technical adjustments on conditional allocations to municipalities.

**STOPPING AND RE-ALLOCATION (DIRECT):**

The stopping and re-allocation of conditional grants is done in terms of sections 18 and 19 of the 2024 DoRA, as amended, against municipalities that reported significant underperformance as at mid-year i.e., 31 December 2024, and non-compliance with the provisions of DoRA, including against conditional grants frameworks against their 2024/25 allocations.

The purpose of sections 18 and 19 of the 2024 DoRA is to be a cash management tool and to circumvent transferring more funds to municipalities that are sitting with unspent transferred funds, avoid fiscal dumping, address possible misappropriation of conditional grant funds, and support fast moving projects in-year with additional funding to accelerate the implementation of those projects and service delivery in those municipalities. The stopping of funds, however, does not imply that projects should stop, rather municipalities should reprioritize to accelerate against their commitment, and implementation ready projects. Only projects that are moving very slowly or are not ready for implementation in the current year are affected by the stopping process as transferring more funds could lead to the misuse of conditional grants. It is also of no use to transfer funds to municipalities which will not fully spend the funds by year end.

The stopping and re-allocation process provides that municipalities that are showing accelerated performance could be considered for additional funding, and the ones that are under performing could have their funds stopped in the current year. These municipalities will be supported in future when their performance improves.

The municipality will be supported in future when their performance improves. Two grants have been affected by the stopping and re-allocation process namely, the Municipal Disaster Response Grant and Integrated National Electrification Programme 5B (INEP).

The municipality is expected to prepare a Special Adjustment Budget to consider the adjustments as Reallocated and Publicized on DORA to ensure that funds are approved for spending to minimise possibility of underspending.

**1.4 Adjusted Operating Budget**

Mandeni Municipality continues with improving the quality of services provided to its citizens, its need to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices has been made in balancing expenditures again realistically anticipated revenues.



As can be seen from the table above, Total Operating Revenue has decreased from R448,9 million to **R442.2 million** with an adjusted budget of R6,7 million at 1.5 per cent.

Total adjusted operating expenditure for the 2024/25 financial year has been appropriated at R461,7 million and translates into a deficit of **R19,5 million**. Operational expenditure has been decreased by 1,4 per cent to an adjustment budget of **R461.7 million**.

The capital budget has increased from R133.8 million to **R135.8 million** with an adjustment budget of R6.2 million.

**2. ADJUSTMENT BUDGET GUIDELINES, ASSUMPTIONS AND PRIORITIES**

Mandeni Municipality continues with improving the quality of services provided to its citizens, its need to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with developmental backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have been made in balancing expenditures again realistically anticipated revenues.

**3.1 Reason for reprioritization**

**3.1.1 Revenue**

**The budget has been adjusted as follows:**

National Treasury has allocated an allocation of Disaster Response Grant to support municipalities towards the disasters, therefore, to allow the municipality to utilize this funding a special adjustment is necessary.

Furthermore, to that national treasury has revised its gazette and adjusted INEP allocation due to the municipality not complying with the conditions of the grant.

**The budget has been adjusted as follows:**

Municipal Disaster Response Grant R5,181,500

**Grants revised as per Adjusted provincial gazette**

Integrated National Electrification Programme (INEP) (R7,700,000)

**3.1.2 Expenditure**

Expenditure by vote has been adjusted from R 468,4 million to R 462 million with an adjusted budget of R 6,7 million with a percentage decrease of 1.43 per cent

* **Contracted Services:** has been decreased by R6,7 million to an adjusted budget of R84,3 million. National Treasury has stopped an amount of **R7.7 million** from our 2024/25 INEP allocation of **R9.2 million** in terms of section 18 of the 2024 DoRA. This leaves the municipality with INEP allocation of **R1.5 million** for 2024/25 financial year.



**4.1.1 Capital Expenditure**

**Disaster Relief Grant**

The capital budget has increased from R133.8 million to **R135.8 million** with an adjustment budget of R1,9 million from the DORA publication gazetted of an allocation of R5.2 million for Municipal Disaster Response Grant (MDRG) to assist the municipality in addressing the effects of the floods. Approved Grant has been transferred during the month of March 2025.



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**Table 2 MBRR Table B1 - Budget Summary**



**Explanatory notes to MBRR Table B1 - Budget Summary**

Table B1 is a budget summary and provides a concise overview of the Municipality’s budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).

The table provides an overview of the amounts approved by the Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality’s commitment to eliminating basic service delivery backlogs.

Financial management reforms emphasize the importance of the municipal budget being funded. This requires simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard.

The operating surplus/deficit (after Total Expenditure) is negative over the MTREF Capital expenditure is balanced by capital funding sources, of which Transfers recognized are reflected on the Financial Performance Budget.

Borrowing is incorporated in the net cash from financing on the Cash Flow Budget. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality’s cash flow remains positive and is improving indicates that the necessary cash resources are available to fund the Capital Budget.

The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently, Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2024/25, when a small surplus as reflected.

Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

As per table above

Table 3 Adjustments Budget Financial Performance (standard classification)



**Explanatory notes to MBRR Table B2 – Adjusted Budgeted Financial Performance (revenue and expenditure by standard classification)**

Table B2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 12 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enable the National Treasury to compile ‘whole of government’ reports.

Note the Total Revenue on this table includes capital revenues (Transfers recognized – capital) and so does not balance to the operating revenue shown on Table B4.

Note that as a general principle the revenues for the Trading Services should exceed their expenditures.

Table 4 Adjustments Budget Financial Performance (revenue and expenditure by municipal vote)



Explanatory notes to MBRR Table B3 – Adjusted Budgeted Financial Performance (revenue and expenditure by municipal vote).

Table B3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organizational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

Table 5 Adjustments Budget Financial Performance (revenue and expenditure)



**CHART B4 ADJUSTMENT BUDGET FINANCIAL PERFOMANCE (REVENUE)**

**CHART B4 ADJUSTMENT BUDGET FINANCIAL PERFOMANCE (EXPENDITURE)**

Table 6 Adjustments Capital Expenditure Budget by vote and funding



**Explanatory notes to Table 6 – Adjusted Budgeted Capital Expenditure by vote, standard classification and funding source.**

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.

Table 7 Adjustment Budget Financial Position



The adjustments will enhance the service delivery and budget implementation plan and long-term financial sustainability.

**Explanatory notes to Table B6 – Adjustments Budgeted Financial Position**

1. Table B6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table B6 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:

Call investments deposits;

Consumer debtors;

Property, plant and equipment;

Trade and other payables;

Provisions non-current;

Changes in net assets; and

Reserves

1. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
2. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

Table 8 Adjustments Budget Cash Flows



Explanatory notes to Table B8 - Budgeted Cash Flow Statement

**Receipts**

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
2. The municipality has decreased receipts from cash flow with an amount of R2,5 million due to revised national gazette as there is an additional allocation of R5,2 million towards Disaster Relief Grant and reduced INEP allocation of R7,7 as per revised gazette for Government grants operating and capital.
3. The municipality has decreased payments from cash flow under suppliers and employees with R7,7 million which was allocated to Contracted Services as payment for Electricity substation.
4. Cash and cash equivalents total to R95,3 million as at the end of the 2024/25 financial year. The 2024/25 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.
5. Capital Payments have increased from R153,9 million to R156,2 million with an

adjustment of R2,3 million.

This increase is due to payments that will be made in respect of the Disaster Relief Grant.

Table 9 Cash Backed reserves/accumulated surplus reconciliation



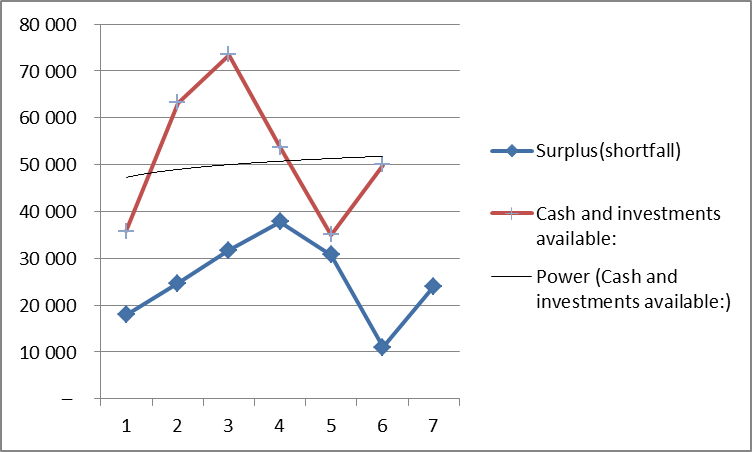
The Cash backing/surplus reconciliation shows that in previous financial years the municipality was not paying much attention to managing this aspect of its finances, and consequently many of its obligations are not cash-backed. This places the municipality in a very vulnerable financial position, as the recent slow-down in revenue collections highlighted. Consequently, Council has taken a deliberate decision to ensure adequate cash-backing for all material obligations in accordance with the Funding and Reserves Policy. This cannot be achieved in one financial year. But over the MTREF there is progressive improvement in the level of cash-backing of obligations. It is anticipated that the goal of having all obligations cash-back will be achieved by 2024/25, when a small surplus is reflected.

From the above table the cash and investments available at the end of 2023/24 financial year was R129,6 million and it has increased to R133,1 million by 2024/25, including the projected cash and cash equivalents as determined in the cash flow forecast. The following is a breakdown of the application of this funding.

Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year.

It can be concluded that the Municipality has a surplus against the cash backed and accumulated surpluses reconciliation. It needs to be noted that for all practical purposes the 2024/25 MTREF was funded when considering the funding requirements of section 18 and 19 of the MFMA.

The following graph supplies an analysis of the trends relating cash and cash equivalents and the cash backed reserves/accumulated funds reconciliation over a seven-year perspective.



**Notes to Table B8 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality’s budget must be “funded”.
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the Adjustment budget is not appropriately funded.
5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2024/25 MTREF was funded to the significant surplus of R133,1 million.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2024/25 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.
7. As can be seen the budget has been modelled to progressively move to a surplus of R133,1 million by 2024/25.

Table 10 Asset Management





**Explanatory notes to Table B9 - Asset Management**

Table B9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.

Table 11 Basic Service delivery measurement



Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs.

# Part 2 – Supporting Documentation

## ADJUSTMENT TO BUDGET ASSUMPTION

There were no adjustments to budget assumption.

## ADJUSTMENTS TO BUDGET FUNDING

Section 18(1) of the MFMA states that an annual budget may only be funded from:

* Realistically anticipated revenues to be collected,
* Cash backed accumulated funds from previous year’s surpluses not committees for other purposes; and
* Borrowed funds, but only for the capital budget referred to in section.

This refers to the narrative summary of the impact of the adjustment budget on the funding of operation and capital expenditure for the municipality.

The adjustment budget is funded by realistically anticipated revenues. This then ensures the financial sustainability of the municipality that both operating and capital expenditure is funded appropriately.

## ADJUSTMENT TO CAPITAL EXPENDITURE

Capital expenditure: -have been increased by R6.2 million to an adjusted budget of R133.8 million. Adjustment has considered the approved rollover for MIG funding and reprioritization of capital projects funded through reserves.

Capital Budget funded by National and Provincial Government have been increased by R5.4 million to an adjustment budget of R45.1 million. Adjusted has considered the approved rollovers that were not fully spent in the previous financial year which have been approved by the National and Provincial Treasury.

 Municipal Infrastructure Grant (MIG) of R5,377,560 and

The revised DORA has an impact on grant receipts and expenditure which have been considered in this adjustment budget. This review has an impact on revenue and expenditure as we have adjusted revenue and expenditure in the budget.

Capital Budget funded from internally generated funds has been adjusted from R92.9 million to R94.5 million with a increase of R1.6 million at 1.5 per cent.

Table 12 Supporting Table SB1- Budgeted Financial Performance





Table 13 Supporting Table SB2- Financial Position Budget



Table 14 Supporting Table SB4- Adjustments to Budgeted performance indicators



Table 15 Supporting Table SB6- Adjustment Budget- Funding Measurement



Table 16 Supporting Table SB7- Adjustment Budget- Transfers and grant receipts



Table 17 Supporting Table SB8- Adjustment Budget- Transfers and grant expenditure



Table 18 Supporting Table SB9- Adjustment Budget- Reconciliation of Transfers



Table 19 Supporting Table SB11- Adjustment Budget- Councilor and staff benefits



Table 20 Supporting Table SB14- Adjustment Budget- Monthly revenue and expenditur



Table 21 Supporting Table SB15- Adjustment Budget- Monthly Cash Flow



## 2.8 Municipal Manager’s quality certificate

I S.G. Khuzwayo, Municipal Manager of Mandeni 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:

* **mSCOA Adjustment Budget and supporting documents are consistent with the Integrated Development Plan of the municipality.**

Print Name \_\_\_Mr. S.G. Khuzwayo

Municipal manager of Mandeni Municipality (KZN 291)

Signature\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Date 8th April 2025**