ADJUSTMENT BUDGET 2025/26
SETSOTO LOCAL MUNICIPALITY

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Adjustment Budget

1.1 Mayor’s Report

The Executive Mayors report will be handed out during the Budget meeting.

1.2 Purpose of the Report

The purpose of this report is to table in Council the Adjustment budget for the 2025/26 financial year to Council for approval in terms of Section 28 of the MFMA. The adjustment budget emanates from the mid-year performance assessment as per Section 72 of the MFMA.
The adjustment will:

- adjust the revenue and expenditure estimates downwards where there is material under-collection of revenue during the in year;
- appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for;
- authorize the utilization of projected savings in one vote towards spending under another vote; and
- correct any errors in the annual budget;

1.3 Legislative Background

Section 72 of the MFMA stating that *"the accounting officer of a municipality must by 25 January each year, assess the performance of the municipality during the first half of the financial year, taking into account:*

- *The monthly statements referred to in section 71 for the first half of the financial year;*
- *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;*
- *The past year's annual report and progress on resolving problems identified in the annual report; and*
- *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".*
- *Furthermore, "the accounting officer must, as part of the review, make recommendations as to whether an adjustments budget is necessary; and recommend revised projections for revenue and expenditure to the extent that it may be necessary".*

The mid-year performance assessment review was tabled in Council on 30 January 2026 and Council approved its recommendations.

On the 11 February 2026, Provincial Treasury as part of its oversight role as per section 5 of the MFMA organised the mid-year budget bilateral where it invited, National Treasury, Provincial COGTA, SALGA and SARS. The purpose of bilateral was to provide a high-level overview of the municipality's performance for the first 6 months of the 2025/26 financial year on compliance, financial performance and challenges. Recommendations made in the bilateral meeting have been considered when preparing the adjustment budget.

1.4 Summary of Operating Revenue Excluding Capital Transfers

Setsoto Local Municipality - Table B4 Adjustments Budget Financial Performance (Revenue and Expenditure) - June

Description	Ref	Budget Year 2025/26									Budget Year +1 2026/27	Budget Year +2 2027/28
Figures in Rand thousand		Original Budget A	Prior Adjusted A1	Accum. Funds B	Multi-year capital C	Unfore. Unavoid. D	Nat. or Prov. Govt. E	Other Adjusts. F	Total Adjusts. G	Adjusted Budget H	Adjusted Budget	Adjusted Budget
Revenue												
Exchange revenue												
Service charges - Electricity		141 353	-	-	-	-	-	1 404	1 404	142 757	147 713	155 099
Service charges - Water		70 841	-	-	-	-	-	13 606	13 606	84 447	74 029	77 731
Service charges - Waste water management		32 641	-	-	-	-	-	2 622	2 622	35 263	34 110	35 815
Service charges - Waste management		48 230	-	-	-	-	-	1 819	1 819	50 049	50 400	52 920
Sale of goods and rendering of services		510	-	-	-	-	-	1 950	1 950	2 460	533	560
Interest earned from receivables		56 329	-	-	-	-	-	(20 444)	(20 444)	35 885	58 864	61 807
Interest earned from current and non current assets		9 500	-	-	-	-	-	(960)	(960)	8 540	9 927	10 424
Dividends		90	-	-	-	-	-	8	8	98	94	99
Rent on land		-	-	-	-	-	-	971	971	971	-	-
Rental from fixed assets		123	-	-	-	-	-	1	1	124	128	135
Operational revenue		550	-	-	-	-	-	(49)	(49)	501	575	603
		360 167	**-**	**-**	**-**	**-**	**-**	**928**	**928**	**361 095**	**376 373**	**395 193**
Non-exchange revenue												
Property rates		74 523	-	-	-	-	-	-	-	74 523	77 877	81 771
Fines, penalties and forfeits		120	-	-	-	-	-	-	-	120	125	132
Licences or permits		30	-	-	-	-	-	143	143	173	31	33
Transfer and subsidies - Operational		280 974	-	-	-	-	-	-	-	280 974	293 618	308 299
Interest		18 935	-	-	-	-	-	-	-	18 935	19 787	20 776
Operational revenue		6 340	-	-	-	-	-	-	-	6 340	6 626	6 957
Gains on disposal of assets		-	-	-	-	-	-	400	400	400	-	-
Other gains		32 000	-	-	-	-	-	-	-	32 000	33 440	35 112
		412 922	**-**	**-**	**-**	**-**	**-**	**543**	**543**	**413 465**	**431 504**	**453 080**
Total Revenue (excluding capital transfers and contributions)		**773 089**	**-**	**-**	**-**	**-**	**-**	**1 471**	**1 471**	**774 560**	**807 877**	**848 273**

Total revenue, excluding capital transfers and contributions, increased from R773 million in the original budget to R774.5 million in the adjustment budget, reflecting a net growth of R1.4 million.

This increase is primarily driven by higher collections from water, waste, and wastewater service charges. However, the positive impact was partially offset by a notable reduction in budgeted interest earned on receivables.

A review of the monthly Section 71 reports highlights a consistent favourable variance between budgeted and actual revenue for water, waste, and wastewater service charges. In light of this sustained performance, the budgets for these line items were revised upward to better align with actual revenue trends.

1.5 Summary of Operating Expenditure by Type

Setsoto Local Municipality - Table B4 Adjustments Budget Financial Performance (Revenue and Expenditure) - June

Description	Ref	Budget Year 2025/26									Budget Year +1 2026/27	Budget Year +2 2027/28
Figures in Rand thousand		Original Budget A	Prior Adjusted A1	Accum. Funds B	Multi-year capital C	Unfore. Unavoid. D	Nat. or Prov. Govt. E	Other Adjusts. F	Total Adjusts. G	Adjusted Budget H	Adjusted Budget	Adjusted Budget
Expenditure												
Employee related costs		282 772	-	-	-	-	-	1 317	1 317	284 089	295 495	310 267
Remuneration of councillors		17 711	-	-	15 272	14 741	14 741	(45 753)	(999)	16 712	18 508	19 434
Bulk purchases - electricity		150 284	-	-	-	-	-	(2 007)	(2 007)	148 277	157 047	164 899
Inventory consumed		54 610	-	-	-	-	-	(18 093)	24 699	59 963	57 067	59 920
Debt impairment		136 983	-	-	-	-	-	(67 982)	(67 982)	69 001	143 147	150 305
Depreciation and amortisation		141 822	-	-	-	-	-	-	3 327	145 149	148 204	155 613
Interest		1 200	-	-	-	-	-	511	511	1 711	1 254	1 317
Contracted services		48 344	-	-	-	-	-	16 202	16 202	64 546	50 520	53 045
Transfer and subsidies		120	-	-	-	-	-	(36 654)	18 216	36 506	125	132
Operational costs		60 828	-	-	-	-	-	(7 065)	(7 065)	53 763	63 564	66 741
Total Expenditure		**894 674**	**-**	**-**	**15 272**	**14 741**	**14 741**	**(159 524)**	**(13 781)**	**879 717**	**934 931**	**981 673**
(Deficit)/Surplus		**(121 585)**	**-**	**-**	**(15 272)**	**(14 741)**	**(14 741)**	**160 995**	**15 252**	**(105 157)**	**(127 054)**	**(133 400)**
Transfers and subsidies - capital (monetary allocations)		259 881	-	-	-	-	-	-	-	259 881	271 576	285 154
(Deficit)/Surplus for the year		**138 296**	**-**	**-**	**(15 272)**	**(14 741)**	**(14 741)**	**160 995**	**15 252**	**154 724**	**144 522**	**151 754**

Operating expenditure decreased from R894.6 million in the original budget to R879.7 million in the adjustment budget, representing a reduction of R14.9 million, or 1.6%.

- **Employee-related costs** rose slightly from R282.7 million to R284 million, reflecting performance outcomes during the first half of the financial year. In contrast, **Remuneration of Councillors** declined by R999,000 (5%).
- **Bulk electricity purchases** decreased from R150.2 million to R148.2 million, a reduction of 1%.
- **Inventory consumed** increased by R5.3 million (9%), driven by higher demand for consumables such as water and sewerage treatment chemicals, road maintenance materials, and electricity-related supplies.
- **Contracted services** rose significantly by R16.4 million to R64.7 million, largely due to increased expenditure on professional and security services.
- **Transfers and subsidies** were adjusted upward to accommodate indigent support programs.
- **Operational costs** declined by R7.0 million to R53.7 million, reflecting the implementation of cost containment measures, particularly in catering, travel, subsistence, and other non-essential expenditure categories.

1.6 Summary of Revenue and Expenditure by Vote

Setsoto Local Municipality - Table B3 Adjustments Budget Financial Performance (Revenue and Expenditure by Municipal Vote) - June

Vote Description	Ref	Budget Year 2025/26									Budget Year +1 2026/27	Budget Year +2 2027/28
Figures in Rand thousand		Original Budget A	Prior Adjusted A1	Accum. Funds B	Multi-year capital C	Unfore. Unavoid. D	Nat. or Prov. Govt. E	Other Adjusts. F	Total Adjusts. G	Adjusted Budget H	Adjusted Budget	Adjusted Budget
Revenue by Vote												
Vote 1 - Executive and Council		8 013	-	-	-	-	-	799	799	8 812	8 374	8 792
Vote 2 - Municipal Manager		30	-	-	-	-	-	143	143	173	31	33
Vote 3 - Finance		112 021	-	-	-	-	-	(13 402)	(13 402)	98 619	117 062	122 915
Vote 4 - Administration and Support		-	-	-	-	-	-	225	225	225	-	-
Vote 5 - Development Planning Social Security		86 485	-	-	-	-	-	28 702	28 702	115 187	90 377	94 895
Vote 6 - Technical Services		826 421	-	-	-	-	-	(14 994)	(14 994)	811 427	863 610	906 791
Total Revenue by Vote		**1 032 970**	**-**	**-**	**-**	**-**	**-**	**1 473**	**1 473**	**1 034 443**	**1 079 454**	**1 133 426**
Expenditure by Vote												
Vote 1 - Executive and Council		44 442	-	-	-	-	-	20 489	20 489	64 931	46 441	48 763
Vote 2 - Municipal Manager		30 633	-	-	-	-	-	178	178	30 811	32 010	33 611
Vote 3 - Finance		65 286	-	-	-	-	-	9 308	9 308	74 594	68 224	71 634
Vote 4 - Administration and Support		48 235	-	-	-	-	-	184	184	48 419	50 404	52 924
Vote 5 - Development Planning Social Security		166 284	-	-	-	-	-	(21 218)	(21 218)	145 066	173 764	182 451
Vote 6 - Technical Services		587 795	-	-	-	-	-	39 705	39 705	627 500	614 245	644 956
Total Expenditure by Vote		**942 675**	**-**	**-**	**-**	**-**	**-**	**48 646**	**48 646**	**991 321**	**985 088**	**1 034 339**
(Deficit)/Surplus for the year		**90 295**	**-**	**-**	**-**	**-**	**-**	**(47 173)**	**(47 173)**	**43 122**	**94 366**	**99 087**

The above table depicts the revenue by vote including capital transfers and subsidies and expenditure by vote. The increase in revenue is mainly on the operating revenue since there were no additional transfers and subsidies received and roll-overs of capital grants.

The adjustment budget appropriate funds mainly in service delivery votes such as Technical services and Development Planning and Social Security, the two votes takes approximately 79% of the appropriated expenditure budget whilst the supporting votes shares 21%.

1.7 Capital Budget

Setsoto Local Municipality - Table B5 Adjustments Budget Capital Expenditure by Vote, Functional Classification and Funding - June

Description	Ref	Budget Year 2025/26									Budget Year +1 2026/27	Budget Year +2 2027/28
Figures in Rand thousand		Original Budget A	Prior Adjusted A1	Accum. Funds B	Multi-year capital C	Unfore. Unavoid. D	Nat. or Prov. Govt. E	Other Adjusts. F	Total Adjusts. G	Adjusted Budget H	Adjusted Budget	Adjusted Budget
Capital expenditure - Vote												
Single-year expenditure to be appropriated												
Vote 1 - Executive and Council		-	-	-	-	-	-	440	440	440	-	-
Vote 2 - Municipal Manager		-	-	-	-	-	-	80	80	80	-	-
Vote 3 - Finance		345	-	-	-	-	-	561	561	906	361	378
Vote 4 - Administration and Support		90	-	-	-	-	-	245	245	335	94	98
Vote 5 - Development Planning Social Security		16 875	-	-	-	-	-	(3 220)	(3 220)	13 655	17 634	18 516
Vote 6 - Technical Services		270 285	-	-	-	-	-	4 338	4 338	274 623	282 448	296 569
Capital single-year expenditure sub-total		**287 595**	**-**	**-**	**-**	**-**	**-**	**2 444**	**2 444**	**290 039**	**300 537**	**315 561**
Capital Expenditure - Functional												
Governance and administration												
Executive and council		-	-	-	-	-	-	500	500	500	-	-
Finance and administration		3 935	-	-	-	-	-	(2 664)	(2 664)	1 271	4 112	4 317
Internal audit		-	-	-	-	-	-	20	20	20	-	-
		3 935	**-**	**-**	**-**	**-**	**-**	**(2 144)**	**(2 144)**	**1 791**	**4 112**	**4 317**
Community and public safety												
Sport and recreation		12 050	-	-	-	-	-	50	50	12 100	12 592	13 222
Public safety		-	-	-	-	-	-	200	200	200	-	-
Housing		-	-	-	-	-	-	440	440	440	-	-
		12 050	**-**	**-**	**-**	**-**	**-**	**690**	**690**	**12 740**	**12 592**	**13 222**
Economic and environmental services												
Planning and development		-	-	-	-	-	-	260	260	260	-	-
Road transport		25 250	-	-	-	-	-	18 098	18 098	43 348	26 386	27 705
		25 250	**-**	**-**	**-**	**-**	**-**	**18 358**	**18 358**	**43 608**	**26 386**	**27 705**
Trading services												
Energy sources		7 150	-	-	-	-	-	3 655	3 655	10 805	7 472	7 845
Water management		237 885	-	-	-	-	-	(70 772)	(70 772)	167 113	248 590	261 019
Waste water management		-	-	-	-	-	-	52 657	52 657	52 657	-	-
Waste management		1 325	-	-	-	-	-	-	-	1 325	1 385	1 454
		246 360	**-**	**-**	**-**	**-**	**-**	**(14 460)**	**(14 460)**	**231 900**	**257 447**	**270 318**
Total Capital Expenditure - Functional		**287 595**	**-**	**-**	**-**	**-**	**-**	**2 444**	**2 444**	**290 039**	**300 537**	**315 562**
Funded by:												
National Government		269 885	-	-	-	-	-	-	-	269 885	282 030	296 131
Internally generated funds		6 000	-	-	-	-	-	10 011	10 011	16 011	6 270	6 583
Total capital funding		**275 885**	**-**	**-**	**-**	**-**	**-**	**10 011**	**10 011**	**285 896**	**288 300**	**302 714**

The capital budget increased from R287.5 million in the original budget to R290 million in the adjusted budget. Trading services takes 79% of the appropriated capital expenditure budget followed by economic and environmental services with 15% appropriation.

1.8 Funding credibility on cash flow

The importance of tabling funded budgets is emphasized in the Municipal Finance Management Act (MFMA) and its associated Circulars, where it is identified as one of the key “game changers” in strengthening local government financial management. A funded budget ensures that municipalities operate within their means, aligning planned expenditure with realistically anticipated revenue. This principle is critical to maintaining financial sustainability, avoiding unfunded mandates, and ensuring that service delivery commitments can be met without creating structural deficits.

A funded budget is not merely a compliance requirement; it is a cornerstone of credible financial governance. By ensuring that all expenditure is supported by confirmed revenue streams, municipalities safeguard against liquidity challenges, reduce reliance on short-term borrowing, and build confidence among stakeholders, including communities, oversight bodies, and investors.

Determining a Realistic and Credible Budget

To establish whether the budget is both realistic and credible, a calculation was undertaken that compares:

- **Projected operating revenue** against **operating expenditure**, ensuring that core services are adequately funded.
- **Cash flow forecasts** to confirm that the municipality can meet its short-term obligations.
- **Collection rates and historical trends** in revenue streams such as service charges, property rates, and grants, to validate assumptions.
- **Cost containment measures** and efficiency gains, ensuring that expenditure projections are not inflated or misaligned with actual performance.
- **Funding of non-cash items** (e.g., depreciation) and provisions, to ensure the budget reflects the true financial position.
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This calculation provides assurance that the municipality's budget is not only legally compliant but also financially sustainable, credible, and aligned with actual revenue-generating capacity.

Funding Calculation	Original Budget	Adjusted Budget
Total Revenue	773 089	774 561
Less Impairment	(136 983)	(69 001)
Cash Revenue	**636 106**	**705 561**
Total Expenditure	942 674	991 321
Less: Depreciation	(141 822)	(145 149)
Less: Irrecoverable debt written off	(48 000)	(111 605)
Less: Transfer & Subsidies	(120)	(36 506)
Cash Expenditure	**752 732**	**698 061**
Cash Available	**(116 626)**	**7 499**

With the necessary financial discipline, the municipality will be able to maintain the basic service delivery.

Municipal Manager's quality certificate

I, N F Malatjie, Municipal Manager of Setsoto Local Municipality, hereby certify that the adjusted 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 annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: Mrs. N F Malatjie

Municipal Manager of Setsoto Municipality (FS191)

Signature ____

Date _______________________________