

13809

ADJUSTMENT BUDGET - 2019/20

This report served before the Financial Services Portfolio Committee on 25 February 2020, and simultaneously to the Executive Committee and Council on 26 February 2020.

PURPOSE

To submit the Adjustment Medium Term Revenue and Expenditure Framework (MTREF) for the 2019/20 financial year, as required in terms of Section 28 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) and in terms of the Municipal Budget and Reporting Regulations.

IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial And Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 Apply adequate financial management methodologies

BACKGROUND

In terms of section 28 of the Municipal Finance Management Act, the municipality may revise an approved annual budget through an Adjustments Budget.

An Adjustments Budget according to Section 28(2):

- a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*
- b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*
- c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the Mayor of the municipality;*

- d) *may authorise the utilisation of projected savings in one vote towards spending under another vote;*
- e) *may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the Council;*
- f) *may correct any errors in the annual budget; and*
- g) *may provide for any other expenditure within a prescribed framework.”*

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;*
- 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; 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).”*

As mentioned above, the MFMA Section 28 (3) refers to a prescribed format according to which the adjustment budget is required to be prepared. The National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette No 32141, dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare their Budgets as well as the in-year reporting effective from July 2010.

Section 23 (1) of the Municipal Budget and Reporting regulations state that an adjustment budget may be tabled in Council at any time after the mid-year review has been tabled in Council but **not later than 28 February** of the current year.

DISCUSSION

Council resolved in terms of Resolution 13720 dated 22 January 2020 that:

- “3. as a result of the Mid-Year Budget Report, a report dealing with the Adjustments Budget, in terms of Section 28 of the Municipal Finance Management Act be submitted to Council;”**

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of the Municipal Budget and Reporting Regulations in both printed and electronic formats.

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PART 1 - ADJUSTMENTS BUDGET

1. MAYOR'S REPORT

The Mayor's report will be presented at the Executive Committee meeting.

2. RESOLUTIONS

Refer to recommendations of this report.

3. EXECUTIVE SUMMARY

3.1 The following table represents an Executive Summary for the 2019/20 Adjustment Budget:

DESCRIPTION	ADOPTED BUDGET 2019/2020	PROPOSED ADJUSTED BUDGET 2019/2020	INCREASE / (DECREASE)
	R	R	R
Revenue (Excluding Capital Grants)	3 208 768 100	3 198 114 400	(10 653 700)
Expenditure	3 234 246 900	3 292 395 000	58 148 100
Surplus/(Deficit) (Excluding Capital Grants)	(25 478 800)	(94 280 600)	(68 801 800)

The deficit has increased from R25,4 million to R94,3 million. This is as a result of a combination of a slight decrease in revenue by R10,6 million and a substantial increase in expenditure by R58,1 million.

The original deficit tabled in May 2019 should have been the catalyst to decrease expenditure during the 2019/2020 budget year. Instead, the user departments have ignored this deficit and have continued to spend without identifying savings for the increased expenditure.

In order to fund all the additional expenditure, tariffs would have had to be adjusted to generate extra revenue. However, the municipality is in no position to adjust tariffs as Section 28(6) of the MFMA clearly forbids this.

Therefore, departments will have to re-prioritise their operational activities to identify savings to fund the deficit. Furthermore, the SCM year-end process will have to be moved to beginning of May 2020 – thus assisting the Chief Financial Officer in reallocating savings to the deficit. See Council recommendation 7.

3.1.1 Reasons for increased budget deficit is as follows:

Contracted Services

- **Legal Advice and Litigation – R14,9 million:** Increased funds have been requested for payment of outstanding invoices which represent already committed and approved cases. Based on prior year's trends, legal fees have escalated more than the set inflation percentage in the budget policy, over the past five years. The administration must very seriously look at curbing legal costs especially those that provide no return (benefit) for the municipality.

The table below reflects legal fees expenditure for the past five years and current year:

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2019/2020
ITEM EXPENDITURE	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	PROPOSED ADJUSTED BUDGET	ACTUAL YTD 31/01/2020
	R	R	R	R	R	R
LEGAL FEES - LITIGATION	3 793 945	2 375 967	8 385 098	13 501 079	21 232 100	12 864 565
PERCENTAGE INCREASE (YEAR ON YEAR)		-37%	253%	61%	57%	

- **Security:** An additional amount of R10 million has been allocated for security costs. However, it is anticipated that the allocated funds will not be sufficient for the remainder of the financial year as the expenditure is 59% (see table below) of the proposed adjusted budget. The Departments will be obliged to find savings to fund the additional amounts required.

Table below shows security expenditure for the past five years and current year:

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2019/2020
ITEM EXPENDITURE	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	PROPOSED ADJUSTED BUDGET	ACTUAL YTD 31/01/2020
	R	R	R	R	R	R
SAFEGUARD AND SECURITY	37 924 078	46 469 620	49 720 555	60 558 273	48 577 300	28 595 996
PERCENTAGE INCREASE (YEAR ON YEAR)		23%	7%	22%	-20%	

- **Business and Advisory: Project Management (SAP) – R16,7 million:** Due to the delay in the implementation of all SAP modules, there has been an extension of project management services until all modules go-live.
- **Valuer and Assessors – R2,8 million:** City of uMhlathuze is updating its valuation roll to be implemented for the period of three years from 1 July 2020 to 30 June 2023.

Other Expenditure

- **Software Licences (Asset Management: IMQS) – R0.7 million:** The original budget provided for the Annual License and Software Maintenance Agreement (ALSMA) is insufficient to cover the licensing costs for the year. The shortfall is required to adhere to the contractual obligations.
- **Geoinformatic Services (Asset Management) – R3,4 million:** Additional funding has been requested to fund the interim post support strategy (short term) for the Asset Management System whilst the overall post support strategy is in planning phase. The interim support strategy comprises of organisational audit support, data management, system administration and change management.
- **Depreciation:** An additional amount of R32,8 million was provided for depreciation. The increase is due to the alignment and unbundling of immovable assets in 2018/19. In addition, there has been substantial construction work in progress that was completed in 2018/19.

3.2 The table below depicts further decreases and increases in revenue and expenditure:

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R'000	R'000
Adopted 2019/20 Budget (Excluding Capital Grants)	3 208 768	3 234 247
Property Rates	(10 153)	
Sale of Electricity	(1 400)	
Sanitation Fees	4 500	
Refuse Removal Fees	(2 500)	
Transfers Recognised - Operational	(657)	
Fines	(500)	
Rental of facilities and equipment	(160)	
Other Net Effect of Increases and (Decreases) In Revenue	216	
Employee Related Costs		14
Bulk Purchases - Water		(3 000)
Grants In Aid		1 668
Depreciation & asset impairment		32 847
Finance Charges		(3 388)
Consultants and Professional Services: Legal Cost		14 896
Contracted Services - Security		10 032
Consultants and Professional Services: Business and Advisory - Project Management		20 716
Contracted Services: Cleaning Services		1 677
Contracted Services: Business and Advisory:Valuer and Assessors		2 867
Contracted Services: Infrastructure and Planning: Geoinformatic Services		3 432
Contracted Services: Sewerage Services		(20 169)
Contracted Services: Business and Advisory:Human Resources		4 229
Other Net Effect of Increases and (Decreases)		(7 674)
Proposed 2019/20 Adjustment Budget	3 198 114	3 292 395

3.3 The 2019/20 Proposed Adjustment Operational Budget:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2019/2020	PROPOSED ADJUSTED BUDGET 2019/2020	INCREASE / (DECREASE)
	R	R	R
Employee related costs	859 549 700	859 564 000	14 300
Remuneration of Councillors	32 403 900	32 403 900	-
Debt Impairment	31 453 900	31 453 900	-
Depreciation and asset impairment	408 531 600	441 378 600	32 847 000
Finance Charges	70 845 700	67 458 000	(3 387 700)
Bulk Purchases - Electricity	990 263 100	990 263 100	-
Bulk Purchases - Water	106 685 500	103 685 500	(3 000 000)
Other Materials	121 110 200	119 503 900	(1 606 300)
Contracted Services	323 134 900	363 431 500	40 296 600
Transfers and grants	12 087 300	13 755 500	1 668 200
Other Expenditure	278 181 100	269 497 100	(8 684 000)
TOTAL	3 234 246 900	3 292 395 000	58 148 100

3.4.1 Positive aspects arising from the Adjusted Budget

Employee related costs

- Employee related costs has **increased** by a marginal amount of R14 300, even though the Section 78 process resulted in additional expenditure of R13,2 million which was funded from savings within employee related costs. This insourcing of resources will see a reduction in Contracted Services in the subsequent financial years.

Bulk Purchases – Water

- Decrease expenditure of **R3 million**.

Finance Charges

- Decrease in expenditure of **R3,4 million**.

3.4.2 Negative aspects arising from the Adjusted Budget

Contracted, consultancy and Professional fees increased as follows:

- Consultants and Professional Services – Project Management = R16,7 million (for ERP Project managers);
- Software licenses (Asset Management (IMQS)) - R0,7 million;
- Legal fees = R14,9 million;
- Software licenses Geoinformatic Services (Asset Management) – R3,4 million;
- Valuer and Assessors – R2,8 million; and
- Security: R10 million.

Depreciation increased by R32,8 million

3.4.3 The source of funding the above is made up of the following revenue categories:

REVENUE BY SOURCE	ADOPTED BUDGET 2019/2020	PROPOSED ADJUSTED BUDGET 2019/2020	INCREASE / (DECREASE)
	R	R	R
Rates	520 379 700	510 226 700	(10 153 000)
Service Charges – Electricity revenue	1 573 324 400	1 571 924 400	(1 400 000)
Service Charges – Water revenue	388 298 900	388 298 900	-
Service Charges – Refuse revenue	113 268 300	110 768 300	(2 500 000)
Service Charges – Sanitation revenue	101 068 000	105 568 000	4 500 000
Rental of facilities and equipment	10 802 300	10 642 300	(160 000)
Interest earned – external investments	58 000 000	58 000 000	-
Interest earned – outstanding debtors	108 700	108 700	-
Fines	7 980 600	7 480 600	(500 000)
Licences and permits	3 406 700	3 406 700	-
Agency services	5 970 400	5 970 400	-
Operating Grants and Subsidies	390 676 000	390 019 000	(657 000)
Other Revenue	35 484 100	35 700 400	216 300
TOTAL REVENUE (EXCLUDING CAPITAL GRANTS)	3 208 768 100	3 198 114 400	(10 653 700)

3.5 Adjusted Grants 2019/2020

DESCRIPTION OF GRANT	ORIGINAL GRANTS BUDGET 2019/20	PROPOSE ADJUSTED GRANTS BUDGET 2019/20	INCREASE OR (DECREASE)
NATIONAL TREASURY			
Equitable Share	362 965 000	362 965 000	-
Intergrated Urban Development Grant-IUDG	139 988 000	139 988 000	-
Financial Management Grant	2 650 000	2 650 000	-
Water services infrastructure grant	40 000 000	40 000 000	-
Extended Public Works Pogramme	4 492 000	4 492 000	-
Energy Efficiency and Demand Side management Grant	10 000 000	-	(10 000 000)
Municipal System Improvement Grant	600 000	600 000	-
TOTAL NATIONAL TREASURY GRANTS	560 695 000	550 695 000	(10 000 000)
PROVINCIAL TREASURY			
Provincialisation of Libraries	8 689 000	8 689 000	-
Community Library Services Grant (Cyber cadets)	2 283 000	1 688 000	(595 000)
Housing Operating Account	2 396 000	2 396 000	-
Museum Subsidy	202 000	202 000	-
Sports and Recreation-Capital	8 243 000	8 243 000	-
TOTAL PROVINCIAL TREASURY GRANTS	21 813 000	21 218 000	(595 000)
TOTAL GRANTS AND SUBSIDIES	582 508 000	571 913 000	(10 595 000)

Decrease in revenue from operating grants and subsidies amounts to **R10,6 million**:

- In terms of the Division of Revenue Act, 2019, an amount of R10 million was gazetted for the Energy Efficiency and Demand Side Management Grant (EEDSM). However, when the business plan was submitted it was not successful and subsequently the grant will not be received. The grant allocation has now been corrected with the Adjusted Budget.
- Although the Provincial Budget Statement indicated an amount of R2 283 000 for the Community Library Services Grant, the Memorandum of Agreement signed on 9 September 2019 was only for R1 688 000.

3.6 Adjusted Capital 2019/2020

	ADOPTED BUDGET 2019/20	VIREMENTS (2018/19 ROLL- OVERS)	SUPPLEMENTS / (RETURNS)	CAPITAL GRANTS WITHELD (EEDG)	PROPOSED ADJUSTED BUDGET
	R	R	R	R	R
TOTAL CAPITAL EXPENDITURE	597 533 000	8 175 000	27 136 000	(9 938 000)	622 906 000

The table below indicates the 2019/20 Proposed Adjustment Capital Budget by Function:

FUNCTION	ADOPTED BUDGET 2019/2020	PROPOSED ADJUSTED BUDGET	INCREASE / (DECREASE)
	R	R	R
Finance and Administration	37 499 800	60 143 000	22 643 200
Community and Social Services	31 533 400	48 311 200	16 777 800
Energy Sources	96 909 700	76 054 300	(20 855 400)
Housing	-	6 339 900	6 339 900
Planning and Development	33 000 000	35 615 300	2 615 300
Road Transport	111 408 000	125 693 500	14 285 500
Sport and Recreation	32 525 000	29 963 500	(2 561 500)
Waste Management	3 600 000	3 600 000	-
Waste Water Management	75 517 100	78 234 200	2 717 100
Water	175 540 000	158 951 100	(16 588 900)
	597 533 000	622 906 000	25 373 000

The table below indicates the sources of funding for the 2019/20 Proposed Adjustment Capital Budget:

SOURCE OF FUNDING	ADOPTED 2019/20	PROPOSED ADJUSTED BUDGET	INCREASE / (DECREASE)
	R	R	R
Borrowing	-	50 608 500	50 608 500
Capital Replacement Reserve	406 301 000	391 003 500	(15 297 500)
MIG	132 989 000	132 989 000	-
Government Grants - National	50 000 000	40 062 000	(9 938 000)
Government Grants - Provincial	8 243 000	8 243 000	-
TOTAL	597 533 000	622 906 000	25 373 000

4. **ADJUSTMENTS BUDGET STATEMENT TABLES**

The following monthly budget statement tables (**DMS 1383522**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table B1	Adjustments Budget Summary	A
Table B2	Adjustments Budget Financial Performance (Standard Classification)	B
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Table SB16	Monthly capital expenditure (Municipal vote)	AC
Table SB17	Monthly capital expenditure (Standard classification)	AD
Table SB18a	Capital expenditure on new assets by asset class	AE
Table SB18b	Capital expenditure on renewal of existing assets by asset class	AF
Table SB18c	Expenditure on repairs and maintenance by asset class	AG
Table SB18d	Depreciation by asset class	AH
Table SB18e	Capital expenditure on upgrading of existing assets by asset class	AI

PART 2 - SUPPORTING DOCUMENTATION**5. ADJUSTMENTS TO EXPENDITURE ON ALLOCATIONS AND GRANT PROGRAMMES**

Refer to **Annexure T - V** (Table SB 7 - SB 9).

6. ADJUSTMENTS TO ALLOCATIONS AND GRANTS MADE BY THE MUNICIPALITY

Refer to **Annexure W** (Table SB 10).

7. ADJUSTMENTS TO COUNCILLORS ALLOWANCES AND EMPLOYEE BENEFITS

Refer to **Annexure X** (Table SB 11).

8. ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

The SDBIP (**DMS 1390858**) has been broken down into five components. These are:

- Component 1: Monthly projections of revenue (including capital grants) to be collected for each source (**Annexure AL**).
- Component 2: Monthly projections of expenditure (operating and capital) and revenue for each vote (**Annexure AM**).
- Component 3: Quarterly projections of service delivery targets and performance indicators for each vote (**Annexures AN – AU**):
 - The Mid-Year performance report does not only report budgetary spending but also supports service delivery performance deviation on the basis of budgetary requirements. The assessment must also focus on 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. Where budget adjustments require adjustment to performance information, a report to Performance Audit Committee must be submitted for noting the deviations from approved original KPIs and targets as set in SDBIP and Scorecards. Once the report has been noted by Performance Audit Committee, it must be submitted to Council for approval to deviate from approved original KPIs and targets set in SDBIP and Scorecard.
 - In light of the above, the Adjusted Budget SDBIP does not include amendments to Component 3. A separate report will be submitted to Council through the Performance Audit Committee for approval of deviations from original KPIs and targets as set in SDBIP and Scorecard.
- Component 4: Ward information for expenditure and service delivery (**Annexures AV – AW**).
- Component 5: Detailed capital works plan broken down into wards over three years (**Annexure AX**).

AMENDED PAGE : EXCO AND COUNCIL AGENDA : 26 FEBRUARY 2020 : ITEM 13808 :
EXCO – PAGE 34 AND COUNCIL – PAGE 5
RECOMMENDATION 9 ADDED

9. ADJUSTMENTS TO CAPITAL EXPENDITURE

The detail of the revised Adjustments 2019/20 Capital Budget (**DMS 1390858**) is **attached** as **Annexure AK**.

10. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure AY** (**DMS 1395239**).

ENVIRONMENTAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

This is dealt with in detail throughout the report.

LEGAL IMPLICATIONS

This is dealt with throughout the report with references to various Acts and Regulations.

COMMENTS OF THE CHIEF FINANCIAL OFFICER

The recommendations are supported.

RECOMMENDED THAT:

1. the 2019/2020 Adjustment Medium Term Revenue and Expenditure Framework (MTREF) be approved as set out in Budget **Tables B1 – B10 (DMS 1383522)**;
2. the report on the 2019/2020 Adjustment Budget be submitted to both the National Treasury and Provincial Treasury;
3. the Accounting Officer to implement measures to contain legal expenditure within the adjusted budget provisions;
4. the Accounting Officer to implement measures to contain security expenditure within the adjusted budget provisions;
5. it be noted that any adjustments made to the 2019/2020 Operating Budget do not result in any changes to the municipal taxes and tariffs;
6. any savings arising post the Adjustment Budget approval be utilised only to contribute to the Capital Replacement Reserve for future years' capital projects;
7. the 2019/2020 Supply Chain Management year end process be moved forward to beginning of May 2020;
8. the revised capital projects as per Component 5 of the SDBIP (**DMS 1390858**) be approved; and
9. **departments to re-prioritise their operational activities to identify savings to fund the deficit.**