

13933
2019/2020 SPECIAL ADJUSTMENTS BUDGET

This report is submitted directly to the Executive Committee and Council with the concurrence of the Mayor, Councillor M G Mhlongo and the Speaker, Councillor S G Mkhize.

PURPOSE

To submit the Special Adjustment Medium Term Revenue and Expenditure Framework (MTREF) for the 2019/20 financial year, as required in terms of Government Gazette number 43181 dated 30 March 2020 and in terms of the Municipal Budget and Reporting Regulations.

All Annexures are electronically available on the system.

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

The President of South Africa declared a nationwide lockdown, where all citizens, except those that form part of essential services, were ordered to stay home for a period of 21 days. Those working in essential services, as defined in the latter announcement, were exempted from the nationwide lockdown declaration. The nationwide lockdown commenced at midnight on Thursday, 26 March 2020.

This announcement broadly affected how municipalities undertook their financial management responsibilities for the remainder of the 2019/20 financial year in terms of the MFMA and more imminently the 2020/21 MTREF budget preparations process.

As a result, the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) on 30 March 2020 to facilitate and enable the performance of legislative responsibilities by municipalities during the national state of disaster.

Municipalities will be exempted from the timeline provisions in the MFMA, until such time that the national state of disaster declaration is lifted by the Minister of Cooperative Governance and Traditional Affairs. The exemption is conditional in that “any action that was required to be taken in terms of the MFMA must be taken within 30 days after the national state of disaster lapsed or is terminated”.

This exemption should therefore enable municipalities to undertake their financial management responsibilities including their budget preparation processes in a manner taking cognisance of the challenges experienced as a result of the announcement of the national state of disaster and the nationwide lockdown.

It also provides for a special adjustments budget to address any expenditure relating to COVID-19 for the current municipal financial year ending 30 June 2020.

Municipalities should note that only one adjustments budget will be allowed between the date of the declaration of the national state of disaster and 15 June 2020, which is the date when it is envisaged to end in terms of the DMA. Municipalities should therefore plan the date when the municipal council will pass the adjustments budget carefully to ensure that all related expenditure is authorised in this one special adjustments budget.

DISCUSSION

In light of the above, the Acting Municipal Manager together with the Chief Financial Officer prepared a special adjustment budget report to comply with requirements of the Government Gazette and to ensure that Covid-19 expenditure is budgeted for.

National Treasury issued Annexure to Budget Circular number 99 (**DMS 1402288**) on 8 April 2020 that provides further guidance to municipalities and municipal entities regarding Government Gazette No.43181 on local government: Municipal Finance Management Act, 2003 - exemption from the Act and Regulations that was published on 30 March 2020.

This circular states that:

*“Municipalities are reminded that any expenditure related to COVID-19 should be **limited to the implementation of their mandates as outlined in the Constitution**, specifically related to the provision of basic services i.e. water, sanitation, refuse and electricity amongst others. By implication avoid creating unfunded mandates for themselves.”*

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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	ADJUSTED BUDGET 2019/2020	PROPOSED SECOND ADJUSTED BUDGET 2019/2020	INCREASE / (DECREASE)
	R	R	R
Revenue (Excluding Capital Grants)	3 198 114 400	3 209 306 400	11 192 000
Expenditure	3 292 395 000	3 326 646 700	34 251 700
Surplus/(Deficit) (Excluding Capital Grants)	(94 280 600)	(117 340 300)	(23 059 700)

The deficit has increased from R94,3 million to R117,3 million. This is as a result of a substantial increase in expenditure by R34,3 million.

The increased deficit is mainly created by the global pandemic COVID-19 which was declared by the World Health Organisation early this year. These expenditures has been spread across in different expenditure line items e.g. consumables, hire of water tankers and provision of clean water, provision of PPE, overtime and security.

The municipality has received R1,2 million from National Government and redirected R10 million IUDG from capital to operating budget. These grants fund part of the pandemic related expenditure and council has to fund the rest of covid-19 expenditure.

Therefore, the tabling of the special adjusted budget to allow council to redirect funds where there are savings and also taking into account the additional deficit of R23,1 million.

The table below sets out the expenditure incurred on **Covid-19 activities** between the periods 27 March 2020 to 29 May 2020:

	R'000	Source of additional funding
Overtime	10 108	Unfunded
Protective Clothing	847	Unfunded
Sanitation of buildings	182	Unfunded
Tankering of Water	11 035	Unfunded
Feeding of homeless/Food distribution	2 466	Unfunded
Sanitisation of taxi ranks	588	Unfunded
Community and awareness campaigns	650	Unfunded

	R'000	Source of additional funding
Implementing Roadblocks	876	Unfunded
Monitoring informal settlements/ relocations	901	Unfunded
Security	14 441	Own funding - partially
Provision for homeless	4 115	Unfunded
Provision of waste container for informal settlement	628	Unfunded
Sanitiser	850	Unfunded
TOTAL	47 687	

As can be seen from the above table a significant amount of expenditure has already been incurred for Covid-19 processes.

3.1.1 Reasons for increased budget deficit is as follows:

Contracted Services

- **Cleaning Services:** additional R0,87 million has been allocated for cleaning. This shortfall was created by payments of old invoices for the previous cleaning contractor.
- **Security:** An additional amount of R12,9 million has been allocated for security costs. The demand for additional security during lockdown to municipal property and facilities had increased. Security also provided help in safeguarding homeless and ques where assistance was provided by council e.g. food parcels and sanitary were distributed.
- **Traffic Fines Management - TMT:** An additional of R1,8 million has been allocated to Traffic Fines Management.

Other Expenditure

- **Hire of Water Tankers:** R10 million has been reallocated from the capital budget funded from the Integrated Urban Development Grant (IUDG) to operating budget to fund the provision of water to disadvantaged areas through water tankers. Provision of clean portable water is imperative for health and cleanliness during the pandemic.
- **COVID-19 related expenditure:** R3 million has been provided to cater for COVID-19 related expenditure which includes procurement of sanitizers, PPE (face masks), decontamination of municipal buildings and public ranks. These expenditures are vital for the safety of employees and community accessing municipal buildings.
- **Dumping Fees (King Cetshwayo District Municipality):** an additional amount of R2,7 million has been allocated to cover shortfall on dumping fees to land fill sites.
- **Employee Related Costs: Overtime:** Various roadblocks were conducted by Traffic department throughout the City during the lockdown which led to an additional funds required for the payment of overtime. Personnel assisted in handing over of food parcels and allocation of homeless in different location such as municipal halls which also required overtime payments. Waste removal had to be collected quite frequently to avoid unhygienic environment which leads to infections.

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
Adjusted 2019/20 Budget (Excluding Capital Grants)	3 379 408	3 292 395
Transfers Recognised - Operational	1 192	
Employee Related Costs		1 038
Grants In Aid		394
Repairs and maintenance - Material		150
Repairs and Maintenance - Contracted Services		1 150
Materials and Supplies		(148)
Contracted Services Cleaning Services		875
Hire of Water tankers funded from IUDG		10 000
Research and Advisory		(406)
Catering Services		101
Telephone, Fax, Telegraph and Telex		(3)
Contracted Services - Security		12 920
COVID 19 Related Expenditure		3 000
Traffic Fines Management - TMT		1 819
Dumping Fees (District Council)		2 705
Other Expenditure		658
Proposed 2019/20 Special Adjustment Budget	3 380 600	3 326 647

3.3 The 2019/20 Proposed Special Adjustment Operational Budget:

EXPENDITURE BY TYPE	ADJUSTED BUDGET 2019/2020	PROPOSED SPECIAL ADJUSTED BUDGET 2019/2020	INCREASE / (DECREASE)
	R	R	R
Employee related costs	859 564 000	860 601 600	1 037 600
Remuneration of Councillors	32 403 900	32 403 900	-
Debt Impairment	31 453 900	31 453 900	-
Depreciation and asset impairment	441 378 600	441 378 600	-
Finance Charges	67 458 000	67 458 000	-
Bulk Purchases - Electricity	990 263 100	990 263 100	-
Bulk Purchases - Water	103 685 500	103 685 500	-
Other Materials	119 503 900	120 699 800	1 195 900
Contracted Services	363 431 500	371 026 900	7 595 400
Transfers and grants	13 755 500	16 249 500	2 494 000
Other Expenditure	269 497 100	291 425 900	21 928 800
TOTAL	3 292 395 000	3 326 646 700	34 251 700

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

REVENUE BY SOURCE	ADJUSTED BUDGET 2019/2020	PROPOSED SPECIAL ADJUSTED BUDGET 2019/2020	INCREASE / (DECREASE)
	R	R	R
Rates	510 226 700	510 226 700	-
Service Charges – Electricity revenue	1 571 924 400	1 571 924 400	-
Service Charges – Water revenue	388 298 900	388 298 900	-
Service Charges – Refuse revenue	110 768 300	110 768 300	-
Service Charges – Sanitation revenue	105 568 000	105 568 000	-
Rental of facilities and equipment	10 642 300	10 642 300	-
Interest earned – external investments	58 000 000	58 000 000	-
Interest earned – outstanding debtors	108 700	108 700	-
Fines	7 480 600	7 480 600	-
Licences and permits	3 406 700	3 406 700	-
Agency services	5 970 400	5 970 400	-
Operating Grants and Subsidies	390 019 000	401 211 000	11 192 000
Other Revenue	35 700 400	35 700 400	-
TOTAL REVENUE (EXCLUDING CAPITAL GRANTS)	3 198 114 400	3 209 306 400	11 192 000

3.5 Special Adjusted Grants 2019/2020

DESCRIPTION OF GRANT	ADJUSTED GRANTS BUDGET 2019/20	PROPOSED SPECIAL ADJUSTED GRANTS BUDGET 2019/20	INCREASE OR (DECREASE)
NATIONAL TREASURY	R	R	
Equitable Share	362 965 000	362 965 000	-
Integrated Urban Development Grant-IUDG - Capital	139 988 000	129 988 000	(10 000 000)
Integrated Urban Development Grant-IUDG - Operating	-	10 000 000	10 000 000
Financial Management Grant	2 650 000	2 650 000	-
Water services infrastructure grant	40 000 000	40 000 000	-
Extended Public Works Programme	4 492 000	4 492 000	-
Municipal Disaster Relief Grant	-	1 192 000	1 192 000
Municipal System Improvement Grant	600 000	600 000	-
TOTAL NATIONAL TREASURY GRANTS	550 695 000	551 887 000	1 192 000
PROVINCIAL TREASURY			
Provincialisation of Libraries	8 689 000	8 689 000	-
Community Library Services Grant (Cyber cadets)	1 688 000	1 688 000	-
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	21 218 000	21 218 000	-
TOTAL GRANTS AND SUBSIDIES	571 913 000	573 105 000	1 192 000

- **Integrated Urban Development Grant – IUDG:** R10 million has been redirected from capital to operating budget to fund provision of water through water tankers during lockdown.
- **Municipal Disaster Relief Grant:** National Government has provided the municipality with R1,192 million disaster relief grant.

3.6 Adjusted Capital 2019/2020

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

FUNCTION	ADJUSTED BUDGET 2019/20	PROPOSED SECOND ADJUSTED BUDGET	INCREASE / (DECREASE)
	R	R	R
Finance and Administration	60 143 000	70 292 500	10 149 500
Community and Social Services	48 311 200	48 772 100	460 900
Energy Sources	76 054 300	72 654 300	(3 400 000)
Housing	6 339 900	6 339 900	-
Planning and Development	35 615 300	5 615 300	(30 000 000)
Road Transport	125 693 500	126 363 900	670 400
Sport and Recreation	29 963 500	33 323 500	3 360 000
Waste Management	3 600 000	3 600 000	-
Waste Water Management	78 234 200	67 104 200	(11 130 000)
Water	158 951 100	184 081 100	25 130 000
	622 906 000	618 146 800	(4 759 200)

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

SOURCE OF FUNDING	ADJUSTED BUDGET 2019/20	PROPOSED SPECIAL ADJUSTED BUDGET	INCREASE / (DECREASE)
	R	R	R
Borrowing	50 608 500	50 608 500	-
Capital Replacement Reserve	391 003 500	396 244 300	5 240 800
Integrated Urban Development Grant	132 989 000	122 989 000	(10 000 000)
Government Grants - National	40 062 000	40 062 000	-
Government Grants - Provincial	8 243 000	8 243 000	-
TOTAL	622 906 000	618 146 800	(4 759 200)

4. **ADJUSTMENTS BUDGET STATEMENT TABLES**

The following monthly budget statement tables (**DMS 1405732**) 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
Table B2B	Adjustments Budget Financial Performance (Detail) (Standard Classification)	C
Table B3	Adjustments Budget Financial Performance (Revenue and Expenditure by Municipal Vote)	D
Table B3B	Adjustments Budget Financial Performance (Detail) (Revenue and Expenditure by Municipal Vote)	E
Table B4	Adjustments Budget Financial Performance (Revenue by source and Expenditure by Item)	F
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Table B5B	Adjustments Capital Expenditure Budget by vote and funding B	H
Table B6	Adjustments Budget Financial Position	I
Table B7	Adjustments Budget Cash Flows	J
Table B8	Cash Backed Reserves/Accumulated Surplus	K
Table B9	Asset Management	L
Table B10	Basic service delivery measurement	M
Table SB1	Supporting detail to Budgeted Financial performance	N
Table SB2	Supporting detail to Financial Position Budget	O
Table SB3	Adjustments to the SDBIP Performance Objective	P
Table SB4	Adjustments to budgeted performance indicators and benchmarks	Q
Table SB5	Social, Economic and Demographic statistics and assumptions	R
Table SB6	Funding Measurement	S
Table SB7	Transfers and Grants receipts	T
Table SB8	Expenditure on transfers and grant programmes	U
Table SB9	Reconciliation of transfers, grants and unspent funds	V
Table SB10	Transfers and grants made by the Municipality	W
Table SB11	Councillor and Staff Benefits	X
Table SB12	Monthly revenue and expenditure (Municipal Vote)	Y
Table SB13	Monthly revenue and expenditure (Standard Classification)	Z
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Table SB15	Monthly cash flow	AB
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
Table SB19	List of capital programmes and projects affected by adjustments budget	AJ

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 1405669**) 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**).
- 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**).

9. ADJUSTMENTS TO CAPITAL EXPENDITURE

The detail of the revised Adjustments 2019/20 Capital Budget (**DMS 1405669 Annexure AK**).

10. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure AY** (**DMS 1406335**).

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 Special Adjustment Medium Term Revenue and Expenditure Framework (MTREF) be approved as set out in Budget **Tables B1 – B10 (DMS 1405732)**;
2. the report on the 2019/2020 Special Adjustment Budget be submitted to both the National Treasury and Provincial Treasury;
3. the Accounting Officer to implement measures to contain security expenditure within the adjusted budget provisions;
4. 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;
5. any savings arising post the Special Adjustment Budget approval be utilised only to contribute to the Capital Replacement Reserve for future years' capital projects;
6. the revised capital projects as per Component 5 of the SDBIP **(DMS 1405669)** be approved; and
7. departments to re-prioritise their operational activities to identify savings to fund the deficit.