

14166

2020/21 - SPECIAL ADJUSTMENTS BUDGET

This report served before the Financial Services Portfolio Committee on 29 September 2020. The recommendations were supported.

PURPOSE

To submit the Special Adjustment Medium Term Revenue and Expenditure Framework (MTREF) for the 2020/21 financial year, as required in terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR).

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.

The 2020 National Supplementary Budget was delivered by the Minister of Finance in Parliament on the 24 June 2020. The 2020 Supplementary Budget responds to the COVID-19 pandemic and its impact on the economy.

This includes the R20 billion allocation for local government announced by the President to assist in funding COVID-19 expenditure. This allocation consists of R11 billion added to the local government equitable share and just over R9 billion that was repurposed for the provision of water and sanitation and for sanitising public transport facilities within existing grant allocations to local government.

In terms of Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR), municipalities must adjust their 2020/21 MTREF budgets to account for the revised funding allocations that were made available.

In addition, municipalities should use this adjustments budget to reprioritise the 2020/21 budget to respond to the impact of the COVID-19 pandemic on the budget. Given that it has been 5 months since the lockdown, better quality information should be available to inform the budget assumptions.

The 2020/21 adjustments budget must be adopted by Council by no later than 30 September 2020.

Furthermore, funding and expenditure that pertain to COVID-19 must be recorded and ring fenced through the Municipal Standard Chart of Accounts (mSCOA) as per the guidance provided in mSCOA Circular No. 9 that was issued on 9 June 2020.

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 Section 28(2)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Section 23(3) of the Municipal Budget and Reporting Requirements (MBRR).

National Treasury advised that municipalities must adjust their 2020/21 MTREF budgets to account for the revised funding allocations that were made available. and to ensure that Covid-19 expenditure is budgeted for.

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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:

	ADOPTED BUDGET 2020/21	PROPOSED SPECIAL ADJUSTMENT BUDGET 2020/21	INCREASE/ (DECREASE)
	R	R	R
Revenue (Excluding Capital Grants)	3 430 793 600	3 496 411 600	65 618 000
Expenditure	3 485 273 600	3 594 077 400	108 803 800
Surplus/(Deficit)	(54 480 000)	(97 665 800)	(43 185 800)
Capital	671 834 100	911 512 100	239 678 000

The deficit has increased from R54,5 million to R97,7 million. This is as a result of a substantial increase in expenditure by R108,8 million.

The increased deficit is mainly created by the global pandemic COVID-19 which was declared by the World Health Organisation earlier this year.

These expenditures have been spread across in different expenditure line items e.g. consumables, provision of PPE and decontamination of various municipal facilities.

This pandemic has also had a significant impact on Council's ability to collect debt and therefore it has been necessary to increase the debt impairment budget.

Furthermore, delays due to various processes has resulted in additional budget required for Project Management for the SAP project.

It should be noted that the R20 billion allocation for local government announced by the President to resource COVID-19 priorities are also included in the 2020 National Supplementary Budget dated 24 June 2020. These monies consist of R11 billion added to the local government equitable share and just over R9 billion that was repurposed for the provision of water and sanitation and for sanitising public transport facilities within existing grant allocations to local government.

3.1.1 **Reasons for increased budget deficit is as follows:**

Contracted Services

- **Sewerage Services:** additional R14,6 million has been allocated for the monthly removal of effluent. The user department omitted to budget for this expense in the 2020/21 Adopted.
- **Project Management:** An additional amount of R15,6 million has been allocated for project management fees for the payment of the SAP consultants in order for Council to successfully complete the project.

Other Expenditure

- **Depreciation:** An amount of R5,7 million has been provided for additional depreciation as a result of the take-on of the Asset Register onto to SAP.
- **COVID-19 related expenditure:** R1 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.

- **Employee Related Costs: Cell phone and Data allowance:** R0,9 million has been provided for the payment of a temporary cell phone and data allowance to employees who did not previously receive any form of cell phone allowance. This is to encourage officials to continue working from home. Furthermore, employees already receiving a data allowance in terms of the Approved Policy shall receive a temporary additional allowance of R200 per month for data with effect from 1 July 2020.
- **Debt Impairment:** An additional amount of R55 million has been provided to increase the Debt impairment provision. Council's ability to collect debt has been significantly impacted as consumers are not settling their accounts timeously and in some cases not at all.

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

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
Adopted 2020/2021 Budget (Excluding Capital Grants)	3 430 793 600	3 485 273 600
Transfers Recognised - Operational	65 617 000	
Other Revenue	1 000	
Employee Related Costs		903 200
Bulk Purchases - Electricity		(900 000)
Grants In Aid		600 000
Debt Impairment		55 060 600
Depreciation		5 679 800
Disconnections/ Reconnections - Electricity		1 300 000
Disconnections/ Reconnections - Water		2 100 000
Meter Management		4 500 000
Bank Charges		1 050 000
Municipal Services - Electricity and Water		7 500 000
Contracted Services:Outsourced Services:Sewerage Services		14 600 000
Contracted Services:Consultants and Professional Services:Business and Advisory:Project Management - SAP		15 576 000
Other Net Effect of Increases and (Decreases)		834 200
Proposed 2020/21 Special Adjustment Budget	3 496 411 600	3 594 077 400

3.3 The 2020/21 Proposed Special Adjustment Operational Budget:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2020/21	PROPOSED SPECIAL ADJUSTMENT BUDGET 2020/21	INCREASE/ (DECREASE)
	R	R	R
Employee related costs	986 781 100	987 684 300	903 200
Remuneration of Councillors	34 025 600	34 025 600	-
Debt Impairment	35 000 000	90 060 600	55 060 600
Depreciation and asset impairment	474 572 500	480 252 300	5 679 800
Finance Charges	79 943 200	79 943 200	-
Bulk Purchases - Electricity	1 028 596 400	1 027 696 400	(900 000)
Bulk Purchases - Water	110 419 500	110 419 500	-
Other Materials	143 839 600	144 085 500	245 900
Contracted Services	289 826 700	327 958 900	38 132 200
Transfers and grants	13 778 000	14 378 000	600 000
Other Expenditure	288 491 000	297 573 100	9 082 100
TOTAL	3 485 273 600	3 594 077 400	108 803 800

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

REVENUE BY SOURCE	ADOPTED BUDGET 2020/21	PROPOSED SPECIAL ADJUSTMENT BUDGET 2020/21	INCREASE/ (DECREASE)
	R	R	R
Rates	540 840 000	540 840 000	-
Service Charges – Electricity revenue	1 666 176 600	1 666 176 600	-
Service Charges – Water revenue	411 574 300	411 574 300	-
Service Charges – Sanitation revenue	111 886 000	111 886 000	-
Service Charges – Refuse revenue	117 414 400	117 414 400	-
Rental of facilities and equipment	11 163 700	11 163 700	-
Interest earned – external investments	63 000 000	63 000 000	-
Interest earned – outstanding debtors	114 000	114 000	-
Fines	10 596 900	10 596 900	-
Licences and permits	3 406 700	3 406 700	-
Agency services	5 970 400	5 970 400	-
Operating Grants and Subsidies	424 642 800	490 259 800	65 617 000
Other Revenue	64 007 800	64 008 800	1 000
TOTAL (Excluding Capital Grants)	3 430 793 600	3 496 411 600	65 618 000

3.5 Special Adjusted Grants 2020/2021

DESCRIPTION OF GRANT	ADOPTED BUDGET 2020/21	SPECIAL ADJUSTED BUDGET 2019/20	INCREASE OR (DECREASE)
NATIONAL TREASURY	R	R	R
Equitable Share	396 870 000	462 487 000	65 617 000
Intergrated Urban Development Grant (IUDG) Capital	153 857 200	153 857 200	-
Intergrated Urban Development Grant (IUDG) Operating	8 097 800	8 097 800	-
Financial Management Grant	2 600 000	2 600 000	-
Water services Infrastructure grant (WSIG)	25 000 000	25 000 000	-
Energy Efficiency and Demand Management	5 000 000	4 500 000	(500 000)
Extended Public Works Pogramme	4 278 000	4 278 000	-
TOTAL NATIONAL TREASURY GRANTS	595 703 000	660 820 000	65 117 000
PROVINCIAL TREASURY			
Provincialisation of Libraries	8 932 000	8 932 000	-
Community Library Services Grant (Cyber cadets)	2 445 000	2 445 000	-
Housing Operating Account	1 206 000	1 206 000	-
Museum Subsidy	214 000	214 000	-
TOTAL PROVINCIAL TREASURY GRANTS	12 797 000	12 797 000	-
TOTAL GRANTS AND SUBSIDIES	608 500 000	673 617 000	65 117 000

- **Equitable Share:** Additional R65,6 million has been allocated to Council in terms of National Treasury's supplementary budget dated 24 June 2020.
- **Energy Efficiency and Demand Management:** A reduction of R 500 000 by National Treasury.

3.6 Adjusted Capital 2020/21

The table below indicates the 2020/21 Proposed Special Adjustment Capital Budget by Function:

FUNCTION	ADOPTED BUDGET 2020/21	2019/20 ROLL- OVERS	ADDITIONAL/ (REDUCTION)/ VIREMENTS	SPECIAL ADJUSTED BUDGET 2019/20	INCREASE / (DECREASE)
	R	R	R	R	R
Finance and Administration	33 878 900	15 613 000	54 139 100	103 631 000	69 752 100
Community and Social Services	26 328 000	22 756 600	-	49 084 600	22 756 600
Energy Sources	85 239 200	11 905 700	(500 000)	96 644 900	11 405 700
Executive and Council	51 000	-	-	51 000	-
Environmental Protection	1 600 000	1 234 900	-	2 834 900	1 234 900
Housing	-	6 339 900	-	6 339 900	6 339 900
Planning and Development	4 604 600	6 248 200	-	10 852 800	6 248 200
Public Safety	1 158 000	69 400	(24 300)	1 203 100	45 100
Road Transport	165 325 600	48 202 000	(22 800)	213 504 800	48 179 200
Sport and Recreation	27 847 000	22 140 900	-	49 987 900	22 140 900
Waste Management	3 604 000	1 778 500	-	5 382 500	1 778 500
Waste Water Management	48 604 900	5 641 400		54 246 300	5 641 400
Water	273 592 900	44 255 500	(100 000)	317 748 400	44 155 500
	671 834 100	186 186 000	53 492 000	911 512 100	239 678 000

Significant Changes:

- 1 Roll Overs:** Due to Covid-19 and logistical delays in implementing the 2019/20 Capital Budget, the administration has had no option but to roll over a significant portion of the 2019/20 unspent capital budget to the tune of R186 million.

Given that, this roll over will no doubt have an impact on the implementation of the 2020/21 Capital Projects, the exact effect thereof cannot be accurately determined right now, therefore it is expected for the mid-year Adjusted Budget, a far more precise and accurate picture will be painted.

- 2 SAP ERP Project:** An additional R54m will be required on the capital budget to finish this project after the previous Service Providers withdrew from their contractual obligations. This matter is very complex and a far more detailed report dealing with the matter will serve before Executive Committee shortly.

The table below indicates the sources of funding for the 2020/21 Proposed Special Adjustment Capital Budget:

SOURCE OF FUNDING	ADOPTED BUDGET 2020/21	2019/20 ROLL- OVERS	ADDITIONAL/ (REDUCTION) / VIREMENTS	SPECIAL ADJUSTED BUDGET 2019/20	INCREASE / (DECREASE)
	R	R	R	R	R
Borrowing	157 000 000	17 011 300	-	174 011 300	17 011 300
Capital Replacement Reserve	330 976 900	169 174 700	53 992 000	554 143 600	223 166 700
Integrated Urban Development Grant	153 857 200	-	-	153 857 200	-
Government Grants - National	30 000 000	-	(500 000)	29 500 000	(500 000)
Government Grants - Provincial	-	-	-	-	-
TOTAL	671 834 100	186 186 000	53 492 000	911 512 100	239 678 000

4. ADJUSTMENTS BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1418599**) 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
Table B5	Adjustments Capital Expenditure Budget by vote and funding	G
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 NUMBER	DESCRIPTION	ANNEXURE
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
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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
Table SB14	Monthly revenue and expenditure (Revenue by source and expenditure by type)	AA
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 1419763**) 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 – AV**):
- Component 4: Ward information for expenditure and service delivery (**Annexures AW – AX**).
- Component 5: Detailed capital works plan broken down into wards over three years (**Annexure AY**).

9. ADJUSTMENTS TO CAPITAL EXPENDITURE

The detail of the revised Adjustments 2020/21 Capital Budget (**DMS 1419763 Annexure AK**).

10. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure AZ (DMS 1421291)**.

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 2020/2021 Special Adjustment Medium Term Revenue and Expenditure Framework (MTREF) be approved as set out in Budget **Tables B1 – B10 (DMS 1418599)**;
2. the report on the 2020/21 Special Adjustment Budget be submitted to both the National Treasury and Provincial Treasury;
3. it be noted that any adjustments made to the 2020/21 Operating Budget do not result in any changes to the municipal taxes and tariffs;
4. any savings arising post the Special Adjustment Budget approval be utilised only to contribute to the Capital Replacement Reserve for future years' capital projects;
5. the revised capital projects as per Component 5 of the SDBIP (**DMS 1419763**) be approved; and
6. Departments to re-prioritise their operational activities to identify savings to fund the deficit.