

14484
ADJUSTMENT BUDGET 2020/21

This report is submitted simultaneously to both the Executive Committee and Council.

PURPOSE

To submit the 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

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 14395 dated 22 January 2021 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 2020/21 Adjustment Budget:

DESCRIPTION	SPECIAL ADJUSTED BUDGET 2020/2021	PROPOSED SECOND ADJUSTED BUDGET 2020/2021	INCREASE / (DECREASE)
	R	R	R
Revenue (excluding capital grants)	3 496 411 600	3 454 294 700	(42 116 900)
Expenditure	3 594 077 400	3 603 742 200	9 664 800
Surplus/(Deficit)	(97 665 800)	(149 447 500)	(51 781 700)

The deficit has increased from R97,7 million to R149,4 million. This is as a result of a combination of a substantial decrease in revenue by R42,1 million and a slight increase in expenditure by R9,7 million.

The original deficit tabled in May 2020 should have been the catalyst to decrease expenditure during the 2020/21 budget year.

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 2021 – thus assisting the Chief Financial Officer in reallocating savings to the deficit. See Council recommendation 6.

3.1.1 Reasons for increased budget deficit is as follows:

Contracted, consultancy and Professional fees increased as follows:

- **Contracted Services – Air Traffic Operations:** an amount of R9 million has been provided as per CR 14172 dated 30 September 2020 where Council resolved that:
“provision be made for the airport management as well as high priority category projects in the current financial year with the rest being provided for in the future budgets to implement projects in order of their priority as per assessment conducted.”

No provision has been made for revenue to be earned from the management of the airport. At a meeting held between Airports Company South Africa (ACSA) and officials on 12 February 2021 it was indicated that revenue projections would only be provided to Council within a period of 6 months’ operations of the Airport. This is due to the current Concessionaire not being forthcoming with all information required.
- **Consultants and Professional Services – Internal Audit:** an additional of R1,5 million has been provided to audit the irregular expenditure that emanated from 2018/19 AG management letter as well as ad hoc projects due to new risks that have emanated which needs to be responded to through audit reviews;
- **Contracted Services – Sewerage Services:** provision of R3,6 million for the provision of sewer disposal costs arising from the Waste Water Treatment Works taken over by Council in terms of the Section 78 process. These facilities are now being managed by council and all costs need to be budgeted for; and
- **Contracted Services – Shark Nets:** provision of R3 million for the outsourced service of management of the shark nets at various municipal sites.

Other Expenditure

- **Depreciation:** decrease of R61,2 million mainly due to the review of useful lives of infrastructure assets resulting in decrease in 2019/20 actual depreciation and therefore subsequent reduction in budgeted depreciation.
- **Employee Related Costs** has decreased by R5,9 million as a result of various funded vacant posts that will only be filled in the later part of the financial year. Furthermore, movement of Post Retirement Benefit – Gains from Revenue to Expenditure resulting in a zero increase in this item.
- **Materials and supplies increased as follow:**
 - Chemicals = R4,7 million – Section 78 process has resulted in additional expenditure that was previously an outsourced service. This insourcing of resources will see a reduction in Contracted Services.

- **Internal Services – Municipal Services** increase of R21 million due to under budgeting during original budget process. However there has been an increase in consumption of water and electricity by the respective user departments; and
- **Insurance Premiums** increase of R2 million.

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

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
Special Adjusted Budget 2020/2021 Budget (Excluding Capital Grants)	3 496 411 600	3 594 077 400
Property Rates	18 567 800	
Service Charges – Electricity revenue	(1 995 400)	
Service Charges – Water revenue	(2 528 800)	
Service Charges – Refuse revenue	(14 937 200)	
Service Charges – Sanitation revenue	(3 691 200)	
Interest earned – external investments	(5 000 000)	
Transfers Recognised - Operational	500 000	
Fines	(3 090 000)	
Post Employment Medical Benefits	(26 539 200)	
Other Net Effect of Increases and (Decreases) In Revenue	(3 402 900)	
Employee Related Costs:		(5 903 600)
Remuneration of Councillors		291 100
Bulk Purchases - Water		10 244 700
Depreciation and asset impairment		(61 253 000)
Other Materials - Maintenance		1 072 900
Other Materials - Non Maintenance		1 360 200
Other Materials - Chemicals		4 684 600
Contracted Services - Air Traffic and Navigation		7 800 000
Contracted Services - Air Traffic - Maintenance of Buildings and Facilities		750 000
Contracted Services - Air Traffic - Security		400 000
Contracted Services - Security		12 000
Contracted Services - Internal Auditors		1 500 000
Contracted Services - Sewerage Services		3 612 000
Contracted Services - Meter Management		1 000 000
Contracted Services - Shark Nets		3 000 000
Contracted Services - Cleaning Services		1 482 300
Contracted Services - Medical Services		320 000
Other Expenditure - Bank Charges		1 553 500
Other Expenditure - Specialised Computer Service		1 823 400
Other Expenditure - Insurance		6 646 100
Other Expenditure - Levies Paid - Water Resource Management Charges		5 456 900
Other Expenditure -Municipal Services		21 240 900
Other Expenditure - Hire Charges		3 586 900
Other Net Effect of Increases and (Decreases)		(1 016 100)
Proposed Draft 2020/2021 Second Adjustment Budget	3 454 294 700	3 603 742 200

The 2020/21 Proposed Adjustment Operational Budget:

EXPENDITURE BY TYPE	SPECIAL ADJUSTED BUDGET 2020/2021	PROPOSED SECOND ADJUSTED BUDGET 2020/2021	INCREASE / (DECREASE)
	R	R	R
Employee related costs	987 684 300	981 780 700	(5 903 600)
Remuneration of Councillors	34 025 600	34 316 700	291 100
Debt Impairment	90 060 600	90 060 600	-
Depreciation and asset impairment	480 252 300	418 999 300	(61 253 000)
Finance Charges	79 943 200	79 943 200	-
Bulk Purchases - Electricity	1 027 696 400	1 027 696 400	-
Bulk Purchases - Water	110 419 500	120 664 200	10 244 700
Other Materials	144 085 500	151 203 200	7 117 700
Contracted Services	327 958 900	345 933 200	17 974 300
Transfers and grants	14 378 000	14 378 000	-
Other Expenditure	297 573 100	338 766 700	41 193 600
TOTAL OPERATING EXPENDITURE	3 594 077 400	3 603 742 200	9 664 800

Below are explanations for major increase/ decreases in expenditure:

- ❖ Included in employee related costs which has **decreased** by **R5,9 million** this is as a result of various funded vacant posts that will only be filled in the later part of the financial year as well as the movement of Post Retirement Benefit – Gains from Revenue to Expenditure resulting in a zero increase in this item.
- ❖ Contracted, consultancy and Professional fees **increased** as follows:
 - Contracted Services – Air Traffic Operations = **R9 million**;
 - Consultants and Professional Services – Internal Audit = **R1,5 million**;
 - Contracted Services – Sewerage Services = **R3,6 million**;
 - Contracted Services – Shark Nets = **R3 million**;
 - Internal Services – Municipal Services = **R21 million**; and
 - Insurance Premiums = **R2 million**.
- ❖ Water Resource and Abstraction Levies **increased by R5,5 million as well as** Water Purchases **by R10,2 million**. This is a serious concern as this implies that the Municipality is not using its own water resources optimally, therefore forced to purchase from the Water Board. (For Abstraction Levies the Municipality's water resources are not subject to the levies as the Water Boards levies, hence the reason why the optimal use of our own resources is required).

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

REVENUE BY SOURCE	SPECIAL ADJUSTED BUDGET 2020/2021	PROPOSED SECOND ADJUSTED BUDGET 2020/2021	INCREASE / (DECREASE)
	R	R	R
Rates	540 840 000	559 407 800	18 567 800
Service Charges – Electricity revenue	1 666 176 600	1 664 181 200	(1 995 400)
Service Charges – Water revenue	411 574 300	409 045 500	(2 528 800)
Service Charges – Refuse revenue	117 414 400	102 477 200	(14 937 200)
Service Charges – Sanitation revenue	111 886 000	108 194 800	(3 691 200)
Rental of facilities and equipment	11 163 700	10 054 900	(1 108 800)
Interest earned – external investments	63 000 000	58 000 000	(5 000 000)
Interest earned – outstanding debtors	114 000	114 000	-
Fines	10 596 900	7 506 900	(3 090 000)
Licences and permits	3 406 700	3 406 700	-
Agency services	5 970 400	5 970 400	-
Operating Grants and Subsidies	490 259 800	490 759 800	500 000
Other Revenue	64 008 800	35 175 500	(28 833 300)
TOTAL OPERATING REVENUE	3 496 411 600	3 454 294 700	(42 116 900)

Below are explanations for major increase/ decreases in revenue:

- Property Rates:
 - Increase of **R18,6 m** due to various Supplementary Valuations.
- Service Charges – Electricity:
 - Decrease of **R2 m**.
- Service Charges – Water and Sanitation:
 - Decrease in revenue of **R 2,5 m** and **R 3,7 m** respectively.
- Service Charges – Refuse Removal:
 - Decrease in revenue of **R15 m**
- Fines:
 - Decrease in revenue of **R3 m**.

- Post-Employment Medical Benefits:
 - Re-classification of revenue moved to expenditure of R26,5 million.
- Recovery of debtors due to Covid-19:
 - Municipality has adjusted the debt impairment during the Special Adjusted Budget from R35 million to R90 million.

3.4 Adjusted Capital 2020/21

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

FUNCTION	ADJUSTED BUDGET 2020/2021	PROPOSED SECOND ADJUSTED BUDGET 2020/2021	INCREASE / (DECREASE)
	R	R	%
Finance and Administration	103 533 000	104 934 500	1 401 500
Community and Social Services	50 884 600	33 708 100	(17 176 500)
Energy Sources	96 644 900	91 685 000	(4 959 900)
Executive and Council	51 000	51 000	-
Environmental Protection	2 834 900	434 200	(2 400 700)
Housing	6 339 900	6 265 400	(74 500)
Planning and Development	10 852 800	6 300 300	(4 552 500)
Public Safety	1 301 100	1 245 000	(56 100)
Road Transport	213 504 800	149 854 800	(63 650 000)
Sport and Recreation	49 987 900	36 090 900	(13 897 000)
Waste Management	5 382 500	5 381 800	(700)
Waste Water Management	54 246 300	105 919 300	51 673 000
Water	315 948 400	220 838 200	(95 110 200)
	911 512 100	762 708 500	(148 803 600)

Significant Changes:

The special adjusted budget resulted in an increase of R 186 million due to the 2019/20 unspent capital budget. However, a capital budget of R 911,5 million was not achievable in light of the current poor capital expenditure. As at 31 January 2021 this amounted to R176 million which equated to 19% spent.

The Capital Project steering committee therefore resolved that departments should review their expected cash flows for the remainder of the financial year keeping in mind the constraints of the National Lockdown.

The reviewed cash flows resulted in a revised capital budget of R762,7 million. It is important to note that the R148,8 million will be incorporated into the 2021/22 Tabled MTREF.

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

SOURCE OF FUNDING	ADJUSTED BUDGET 2020/2021	PROPOSED SECOND ADJUSTED BUDGET 2020/2021	INCREASE / (DECREASE)
	R	R	R
Borrowing	174 011 300	89 995 900	(84 015 400)
Capital Replacement Reserve	554 143 600	485 205 400	(68 938 200)
Integrated Urban Development Grant	153 857 200	153 857 200	-
Government Grants - National	29 500 000	29 500 000	-
Government Grants - Provincial	-	4 150 000	4 150 000
TOTAL	911 512 100	762 708 500	(148 803 600)

4. **ADJUSTMENTS BUDGET STATEMENT TABLES**

The following monthly budget statement tables (**DMS 1439568**) 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
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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 1441321**) 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 1441321 - Annexure AK**).

10. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure AZ** (**DMS 1446516**).

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, however the Chief Financial Officer wishes to point out that this Capital and Operating expenditure projections by the Administration appears too optimistic and contradictory to the current trend. This, evidenced by the Capital spend to date of 22% and surplus of R358,7 million on the Operating budget as at 31 January 2021.

RECOMMENDED THAT:

1. the 2020/2021 Adjustment Medium Term Revenue and Expenditure Framework (MTREF) be approved as set out in Budget **Tables B1 – B10 (DMS 1439568)**;
2. the report on the 2020/21 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 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 1441321)** be approved;
6. Departments to re-prioritise their operational activities to identify savings to fund the deficit; and
7. only in situations of absolute service delivery emergency, will requisitions for Goods and Services be entertained by the Supply Chain Management unit after 31 May 2021 for the 2020/2021 financial Year.