

15183

ADJUSTMENTS BUDGET – 2021/22

This report is submitted simultaneously to the Financial Services Portfolio Committee, Executive Committee and Council.

PURPOSE

To submit the Adjustment Medium Term Revenue and Expenditure Framework (MTREF) for the 2021/22 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.

The 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.”*

The 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 15042 dated 25 January 2022 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 the 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 2021/22 Adjustments Budget:

DESCRIPTION	ADOPTED BUDGET 2021/22	PROPOSED ADJUSTED BUDGET 2021/22	INCREASE / (DECREASE)
	R	R	R
Revenue (Excluding Capital Grants)	3 762 787 100	4 170 571 200	407 784 100
Expenditure	3 913 241 800	4 321 275 900	408 034 100
Surplus/(Deficit) (Excluding Capital Grants)	(150 454 700)	(150 704 700)	(250 000)
Transfers and Subsidies - Capital	172 955 500	172 395 500	(560 000)
Surplus/(Deficit)	22 500 800	21 690 800	(810 000)

The deficit has increased from R150,5 million to R150,7 million. This is as a result of the movement of Gains – Water Inventory amounting to R 460 m that was re-classified due to mSCOA directive under an expenditure item during Adopted Budget and now corrected after consultation with the National Treasury.

The original deficit tabled in May 2021 should have been the catalyst to decrease expenditure during the 2021/22 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 had to re-prioritise their operational activities to identify savings to fund the deficit. Furthermore, the Supply Chain Management Year-end process will have to be moved to beginning of May 2022 – thus assisting the Chief Financial Officer in reallocating savings to the deficit. See Council Recommendation 7.

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

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
Adopted Budget 2021/2022 Budget (Excluding Capital Grants)	3 762 787 100	3 913 241 800
Inventory consumed - Capitalisation	459 599 600	459 599 600
	4 222 386 700	4 372 841 400
Service Charges – Electricity revenue	(56 828 400)	
Service Charges – Water revenue	158 300	
Service Charges – Refuse revenue	49 000	
Rental of facilities and equipment	(3 863 800)	
Interest earned – Outstanding Debtors	8 000	
Transfers Recognised - Operational	2 153 000	
Fines	553 700	
Inventory consumed - Capitalisation	9 613 600	
Gains - Post Employment Medical Benefits	(4 359 300)	
Other Net Effect of Increases and (Decreases) In Revenue	700 400	
Employee Related Costs:		(13 672 600)
Debt Impairment		(10 943 200)
Depreciation and asset impairment		(35 000 000)
Finance Charges		(1 995 900)
Bulk Purchases - Electricity		(23 090 300)
Inventory Consumed - Materials Other		1 241 400
Inventory Consumed - Materials Chemicals		(202 300)
Inventory Consumed - Fuel and Oil		305 800

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
Inventory Consumed - Materials Repairs and Maintenance		(815 400)
Transfers and grants		(380 500)
Contracted Services - Business and Financial Management		1 400 000
Contracted Services - Project Management		(1 176 900)
Contracted Services - Infrastructure and Planning:Engineering:Aeronautical		2 007 600
Contracted Services - Infrastructure and Planning:Town Planner		(2 575 000)
Contracted Services -Laboratory Services:Water		2 899 200
Contracted Services - Maintenance of Equipment		(1 930 500)
Contracted Services - Maintenance of Unspecified Assets		12 950 200
Contracted Services - Safeguard and Security		2 422 400
Contracted Services - Maintenance of Buildings and Facilities		(735 500)
Contracted Services - Removal of Hazardous Waste		(600 000)
Contracted Services - Human Resources		755 800
Contracted Services - Research and Advisory		(889 000)
Contracted Services - Catering Services		834 200
Contracted Services - Cleaning Services		2 241 300
Contracted Services - Connection/Dis-connection:Electricity		2 099 100
Contracted Services - Connection/Dis-connection:Water		3 507 600
Contracted Services - Meter Management		3 273 800
Contracted Services - Professional Staff		685 600
Contracted Services - Sewerage Services		(1 046 600)
Contracted Services - Other		(357 800)
Other Expenditure - Advertising, Publicity and Marketing:Municipal Newsletters		250 000
Other Expenditure - Advertising, Publicity and Marketing:Signs		237 700
Other Expenditure - Advertising, Publicity and Marketing:Tenders		374 300
Other Expenditure - Bank Charges		(1 000 000)
Other Expenditure -Postage/Stamps/Franking Machines		(315 200)
Other Expenditure - Radio and TV Transmissions		500 000
Other Expenditure - Communication:SMS Bulk Message Service		(584 300)
Other Expenditure - Telephone, Fax, Telegraph and Telex		3 244 500
Other Expenditure - Dumping Fees (District Council)		3 620 900

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
Other Expenditure - Water Resource Management Charges		(10 000 000)
Other Expenditure - Municipal Services		9 899 600
Other Expenditure - Remuneration to Ward Committees		(2 200 000)
Other Expenditure - Skills Development Fund Levy		816 400
Other Expenditure - Uniform and Protective Clothing		2 126 800
Other Expenditure - Vehicle Tracking		(1 464 800)
Other Expenditure - Workmen's Compensation Fund		504 400
Other Net Effect of Increases and (Decreases)		1 211 700
Proposed Draft 2021/2022 Adjustment Budget	4 170 571 200	4 321 275 900

3.2 The 2021/22 Proposed Adjustment Operational Budget:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2021/22	PROPOSED ADJUSTED BUDGET 2021/22	INCREASE / (DECREASE)
	R	R	R
Employee related costs	1 084 038 100	1 070 365 500	(13 672 600)
Remuneration of Councillors	35 115 900	35 115 900	-
Debt Impairment	139 527 300	128 584 100	(10 943 200)
Depreciation and asset impairment	435 000 000	400 000 000	(35 000 000)
Finance Charges	69 027 500	67 031 600	(1 995 900)
Bulk Purchases - Electricity	1 242 092 300	1 219 002 000	(23 090 300)
Inventory consumed - Water	360 400 100	360 400 100	-
Inventory consumed - Materials	140 161 000	140 690 500	529 500
Contracted Services	316 498 400	342 263 900	25 816 200
Transfers and grants	14 597 400	14 216 900	(380 500)
Other Expenditure	293 288 300	300 510 300	7 171 300
Losses - Water Inventory	243 095 100	243 095 100	-
Inventory consumed - Capitalisation	(459 599 600)	-	459 599 600
TOTAL	3 913 241 800	4 321 275 900	408 034 100

Explanations for increases/ decreases in expenditure has been provided:

Contracted, Consultancy and Professional fees increased as follows:

- **Contracted Services – Maintenance of Assets and Equipment:** an amount of R11,8 million has been provided for the payment of service providers.
- **Contracted Services – Connection/Disconnection Electricity and Water:** an additional of R5,7 million has been provided to improve the debt collection process.

The additional funding is required as there has been a protracted period where a lower level of credit control actions was done due to the pandemic and lesser availability of staff. With things returning to normal, it is expected that these actions will be increasing extensively, hence the increase in funding.

- **Contracted Services – Meter Management:** an additional of R3,3 million has been provided for meter management.
- **Contracted Services – Laboratory Services:** an additional provision of R2,9 million:
 - Water and Waste Water Treatments Works compliance monitoring is currently executed by Mhlathuze Water Board. The Mhlathuze Water Board's ISO17025 laboratory is utilised for all testing of samples. During the S78 process of insourcing water and wastewater plants operations and maintenance, it was agreed that the Scientific Services will take over the operations of the plant laboratories, water quality testing and wastewater quality testing. However, the Scientific Services laboratory is still in the process of ISO/IEC 17025 accreditation and therefore cannot take on the compliance testing. ISO/IEC 17025 is a standard for general requirements for the competence of testing and calibration laboratories.
 - Monitoring of water and waste water compliance is a statutory requirement which could not be halted. Funds are required to accommodate the processing of compliance testing invoices for water and waste water testing.
- **Contracted Services – Engineering: Aeronautical:** provision of R2 million for the provision of the Airport Reallocation Feasibility Study.
- **Contracted Services – Security Services:** an additional amount of R2,4 million has been redistributed from savings on other commitment items to provide for the shortfall under security. This amount will not be sufficient and user departments will need to either reduce the number of guards at the various sites or identify additional savings and transfer.
- **Contracted Services – Cleaning:** provision of R2,2 million for the outsourced service of cleaning at various municipal sites.

Other Expenditure

- **Depreciation:** decrease of R35 million mainly due to the review of useful lives of infrastructure assets resulting in decrease in 2020/21 actual depreciation and therefore subsequent reduction in budgeted depreciation as well the poor capital expenditure in the 2020/21 financial year.

- **Employee Related Costs** has decreased by R13,7 million as a result of various funded vacant posts that will only be filled in the later part of the financial year.
- **Uniform and Protective Clothing** has increased by R2,1 million as a result of increased costs of PPE.
- **Dumping fees (District Council)** has increased by R3,6 million as a result of increased tariffs charged by the District.
- **Internal Services – Municipal Services** increase of R10 million due to under budgeting during the adopted budget process. However, there has been an increase in consumption of water and electricity by the respective User Departments.

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

REVENUE BY SOURCE	ADOPTED BUDGET 2021/22	PROPOSED ADJUSTED BUDGET 2021/22	INCREASE / (DECREASE)
	R	R	R
Rates	617 377 500	617 377 500	-
Service Charges – Electricity revenue	1 790 122 900	1 733 294 500	(56 828 400)
Service Charges – Water revenue	469 985 800	470 144 100	158 300
Service Charges – Sanitation revenue	107 609 700	107 609 700	-
Service Charges – Refuse revenue	107 606 900	107 655 900	49 000
Rental of facilities and equipment	23 104 900	19 241 100	(3 863 800)
Interest earned – external investments	65 000 000	65 000 000	-
Interest earned – outstanding debtors	118 000	126 000	8 000
Fines	57 082 200	57 635 900	553 700
Licences and permits	3 525 900	3 525 900	-
Agency services	6 179 400	6 179 400	-
Operating Grants and Subsidies	441 913 500	444 066 500	2 153 000
Other Revenue	36 284 300	36 984 700	700 400
Gains on Employee Related Costs	36 876 100	32 516 800	(4 359 300)
Gains on Water Inventory	-	469 213 200	469 213 200
TOTAL REVENUE (EXCLUDING CAPITAL GRANTS)	3 762 787 100	4 170 571 200	407 784 100

Below are explanations for major increase/ decreases in revenue:

- Service Charges – Electricity:
 - Decrease of **R56,8 million** mainly due to reduced consumptions by consumers.
- Rental of facilities and equipment:
 - Decrease of **R3,9 million** due to the airport closure as a result of COVID-19 travel regulations.

3.4 Adjusted Capital 2021/22

The table below indicates the 2021/22 Proposed Adjustment Capital Budget by Function:

FUNCTION	ADOPTED BUDGET 2021/22	PROPOSED ADJUSTED BUDGET 2021/22	INCREASE / (DECREASE)
	R	R	R
Finance and Administration	48 889 800	97 730 300	48 840 500
Community and Social Services	65 932 800	38 480 600	(27 452 200)
Energy Sources	83 598 100	163 887 700	80 289 600
Executive and Council	127 000	-	(127 000)
Environmental Protection	4 400 700	2 400 700	(2 000 000)
Air Transport (Airport)	19 500 000	19 500 000	-
Planning and Development	48 878 500	2 457 300	(46 421 200)
Public Safety	1 111 000	811 900	(299 100)
Road Transport	127 793 700	121 426 800	(6 366 900)
Sport and Recreation	60 876 900	48 079 500	(12 797 400)
Waste Management	-	-	-
Waste Water Management	69 916 300	65 046 100	(4 870 200)
Water	299 942 600	274 709 400	(25 233 200)
	830 967 400	834 530 300	3 562 900

Significant Changes:

Fast tracking of building reliable capacity within the Municipality's Immovable and Movable Infrastructure:

- Electricity Infrastructure Projects:
 - Polaris Substation Refurbishment = R22 m, Hercules Substation Refurbishment = R28 m, Overhead Line Refurbishment from Impala to Scorpio, Neptune, Cygnus and Carina = R8 m, etc.
- Water Supply Projects:
 - eSikhaleni interventions.
- Water Tanker Delivery initiatives – Stopping of hiring, instead purchasing of additional twelve (12) tankers in 2021/22 – R24 m.
- Refuse Removal – four (4) additional compactors and skip loaders in the 2021/22 Year – R16 m.

As at 31 January 2022 the actual capital expenditure amounted to R294,9 million which equated to 35% spent on the Proposed Adjusted Budget.

The table below indicates the sources of funding for the 2021/22 Proposed Adjustment Capital Budget:

SOURCE OF FUNDING	ADOPTED BUDGET 2021/22	PROPOSED ADJUSTED BUDGET 2021/22	INCREASE / (DECREASE)
	R	R	R
Borrowing	226 138 200	374 000 000	147 861 800
Capital Replacement Reserve	431 873 700	288 134 800	(143 738 900)
Integrated Urban Development Grant	128 012 500	128 012 500	-
Government Grants - National	34 000 000	33 440 000	(560 000)
Government Grants - Provincial	10 943 000	10 943 000	-
TOTAL	830 967 400	834 530 300	3 562 900

4. **ADJUSTMENTS BUDGET STATEMENT TABLES**

The following monthly budget statement tables (**DMS 1514957**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table B1	Adjustments Budget Summary	A
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Table SB16	Monthly capital expenditure (Municipal vote)	AC
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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 1510257**) 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 2021/22 Capital Budget (**DMS 1510257 - Annexure AK**).

10. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **Annexure AZ** (**DMS 1514734**).

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

Refer to the Executive Summary contained in this report for comments.

RECOMMENDED THAT:

1. the 2021/22 Adjustment Medium Term Revenue and Expenditure Framework (MTREF) be approved as set out in Budget Tables **B1 – B10 (DMS 1514957)**;
2. the report on the 2021/22 Adjustment Budget be submitted to both the National Treasury and Provincial Treasury;
3. it be noted that any adjustments made to the 2021/22 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 1510257)** 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 2022 for the 2021/22 financial year.