

17684

## ADJUSTMENT BUDGET FOR THE 2024/2025 FINANCIAL YEAR

***This report served before the Financial Services Portfolio Committee on 19 February 2025. The recommendations were supported.***

### PURPOSE

To submit the Adjustment Medium Term Revenue and Expenditure Framework (MTREF) for the 2024/2025 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 compliant
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all related financial policies
		5.1.1.4 Compliance with all MFMA and relevant local government financial legislation
	5.2.1 Sustainable Financial management (Expenditure and Revenue)	5.2.1.1 Provide continuous Internal Communication and support 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 Accurate and timeous payments of creditors
		5.2.1.6 Apply adequate financial management methodologies
	5.3.1 Supply Chain Management	5.3.1.1 Demand and acquisition management
		5.3.1.2 Accurate contracts and logistics management
		5.3.1.3 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**

As per Recommendation 3 of “*The Financial Reporting for the quarter ended 31 December 2024 (Mid-year) (RPT 179654)*”, 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 an electronic format.

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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 2024/2025 Adjustments Budget:**

DESCRIPTION	ADOPTED BUDGET 2024/2025	PROPOSED ADJUSTMENT BUDGET 2024/2025	INCREASE/(DECREASE)
	R	R	R
Revenue (excl capital grants)	5 599 451 800	5 338 039 700	(261 412 100)
Expenditure	5 589 918 300	5 623 917 100	33 998 800
<b>Operating Surplus/(Deficit)</b>	<b>9 533 500</b>	<b>(285 877 400)</b>	<b>(295 410 900)</b>

As can be seen from the table above, the 2024/2025 Proposed Adjustment Budget shows a deficit of R285,9 million. This has deteriorated from the Adopted Budget 2024/2025 surplus of R9,5 million. This is an unprecedented position where Council has to approve a deficit from the original budget surplus. This is an indication that things are not normal. A dip in economic growth of a country and the City of uMhlathuze in particular is one of the contributing factor. Household and business income has dropped which has resulted in decreased City revenue.

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

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
<b>Adopted Budget 2024/25 (Excluding Capital Grants)</b>	5 599 451 800	5 589 918 300
<b>Exchange Revenue</b>		
Service Charges – Electricity revenue	(194 365 700)	
Service Charges – Water revenue	(70 593 000)	
Sale of Goods and Rendering of Services	384 600	
Housing Agreements Construction Contracts	717 000	
Rent on Land	900 000	
Rental from Fixed Assets	(3 575 900)	
Operational Revenue	4 109 400	
<b>Non - Exchange Revenue</b>		
Surcharges and Taxes	1 625 000	
Fines, penalties and forfeits	(6 970 100)	
Transfers and subsidies - Operational	5 352 200	
Interest	1 000 000	
Other Gains	4 400	
Employee Related Costs:		(91 463 100)
Employee Related Costs - Overtime		28 791 800
Employee Related Costs - Standby		2 952 200
Remuneration of Councillors		3 230 700

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
Depreciation		46 809 600
Finance Charges		6 022 600
Debt Impairment		(72 020 900)
Other Materials -Chemicals		(600 000)
Other Materials - Maintenance		(8 154 800)
Other Materials - Non Maintenance		1 802 000
Other Materials - Fuel and Oil		100 000
Contracted Services - Internal Auditors		363 200
Contracted Services - Project Management - SAP		123 962 500
Contracted Services - Project Management - Other		(48 785 300)
Contracted Services - Research and Advisory		(338 500)
Contracted Services - Valuers and Assessors		6 950 200
Contracted Services - Maintenance of Buildings and Facilities		834 400
Contracted Services - Maintenance of Equipment		347 700
Contracted Services - Maintenance of Unspecified Assets		8 749 000
Contracted Services - Catering Services		35 900
Contracted Services - Security		8 900 000
Contracted Services - Air Traffic Navigation		404 000
Contracted Services - Outsourced Service - Cleaning Services		(119 300)
Contracted Services - Outsourced Service - Connections/Disconnections - Water		175 000
Contracted Services - Outsourced Service - Meter Management		6 093 300
Contracted Services - Outsourced Service - Sewerage Services		(600 000)
Contracted Services - Outsourced Service - Traffic Management		(711 800)
Contracted Services - Housing Agreements Construction Contracts		717 000
Contracted Services - Laboratory Services		380 600
Contracted Services - Human Resources		163 500
Contracted Services Other		1 119 400

Increases/Decreases In Revenue and Expenditure		
	Revenue	Expenditure
	R	R
Transfer and Grants		(1 150 000)
Other Expenditure - Bank Charges		(4 568 300)
Other Expenditure - Specialised Computer Service		4 056 000
Other Expenditure -Hire Charges		7 988 300
Other Expenditure - Insurance		(836 000)
Other Expenditure - Municipal Services - Billing		(7 266 100)
Other Expenditure - Municipal Services - Dumping Fees		(40 000)
Other Expenditure - Postage and Stamps		(3 130 000)
Other Expenditure - Commission:Prepaid Electricity		3 604 600
Other Expenditure - Professional Bodies, Membership and Subscription		10 765 200
Other Net Effect of Increases and (Decreases)		(1 535 800)
<b>Proposed Draft 2024/2025 Adjustment Budget</b>	<b>5 338 039 700</b>	<b>5 623 917 100</b>

### 3.3 Surplus and Deficit by Service Category

	ADOPTED BUDGET 2024/2025			PROPOSED ADJUSTMENT BUDGET 2024/2025		
	REVENUE	EXPENDITURE	SURPLUS/(DEFICIT)	REVENUE	EXPENDITURE	SURPLUS/(DEFICIT)
Rates and General	R	R	R	R	R	R
Community and Social Services	18 143 100	150 173 900	(132 030 800)	18 094 400	149 164 400	(131 070 000)
Environmental Protection	65 800	8 279 000	(8 213 200)	65 900	13 825 600	(13 759 700)
Executive and Council	805 200	49 014 500	(48 209 300)	806 000	59 087 400	(58 281 400)
Finance and Administration	1 066 276 400	92 652 000	973 624 400	1 069 942 600	60 368 700	1 009 573 900
Health	-	7 182 200	(7 182 200)	-	7 063 100	(7 063 100)
Housing	71 028 900	94 938 900	(23 910 000)	72 744 000	96 380 000	(23 636 000)
Internal Audit	27 400	175 900	(148 500)	27 500	191 500	(164 000)
Other -Licensing and Regulation/Tourism	286 700	5 004 900	(4 718 200)	198 800	4 986 800	(4 788 000)
Planning and Development	14 425 600	102 513 500	(88 087 900)	15 812 800	103 750 400	(87 937 600)
Public Safety	11 362 000	224 135 300	(212 773 300)	8 048 600	226 593 400	(218 544 800)
Road Transport	15 899 700	309 858 600	(293 958 900)	15 899 900	296 594 000	(280 694 100)
Sport and Recreation	13 277 000	223 320 200	(210 043 200)	13 277 400	225 880 900	(212 603 500)
Information Technology	813 500	53 996 500	(53 183 000)	813 700	179 867 000	(179 053 300)
<b>Total Rates and General (Excluding Capital Grants)</b>	<b>1 212 411 300</b>	<b>1 321 245 400</b>	<b>(108 834 100)</b>	<b>1 215 731 600</b>	<b>1 423 753 200</b>	<b>(208 021 600)</b>
<b>Airport</b>	<b>9 116 500</b>	<b>28 295 000</b>	<b>(19 178 500)</b>	<b>5 116 500</b>	<b>30 626 000</b>	<b>(25 509 500)</b>
<b>Trading Services</b>						
Electricity	2 600 886 100	2 373 236 500	227 649 600	2 408 520 900	2 309 105 200	99 415 700
Electricity - Fleet	3 215 000	28 054 000	(24 839 000)	3 215 000	33 703 400	(30 488 400)
Refuse Removal	231 361 500	211 812 900	19 548 600	231 961 600	204 458 300	27 503 300
Sewerage	254 798 100	347 627 800	(92 829 700)	256 423 300	351 521 700	(95 098 400)
Water	1 287 663 300	1 279 646 700	8 016 600	1 217 070 800	1 270 749 300	(53 678 500)
<b>Total Trading Services (Excluding Capital Grants)</b>	<b>4 377 924 000</b>	<b>4 240 377 900</b>	<b>137 546 100</b>	<b>4 117 191 600</b>	<b>4 169 537 900</b>	<b>(52 346 300)</b>
<b>Total Service Category (Excluding Capital Grants)</b>	<b>5 599 451 800</b>	<b>5 589 918 300</b>	<b>9 533 500</b>	<b>5 338 039 700</b>	<b>5 623 917 100</b>	<b>(285 877 400)</b>

NOTES:

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### 3.4 The 2024/25 Proposed Adjustment Operational Budget:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2024/2025	PROPOSED ADJUSTMENT BUDGET 2024/2025	INCREASE/(DECREASE)
	R	R	R
Employee related costs	1 257 067 700	1 197 348 600	(59 719 100)
Remuneration of Councillors	35 202 700	38 433 400	3 230 700
Bulk Purchases - Electricity	1 802 030 900	1 802 030 900	-
Inventory consumed - Water	325 340 000	325 340 000	-
Inventory consumed - Materials	167 493 600	160 640 800	(6 852 800)
Debt Impairment	274 732 500	202 711 600	(72 020 900)
Depreciation and asset impairment	305 949 500	352 759 100	46 809 600
Finance Charges	178 823 500	184 846 100	6 022 600
Contracted Services	411 502 300	519 426 100	107 923 800
Contracted Services - Housing Agreements Construction Contract	64 293 000	65 010 000	717 000
Transfers and Subsidies	7 582 000	6 432 000	(1 150 000)
Operational costs	389 896 200	398 934 100	9 037 900
Losses - Water Inventory	370 004 400	370 004 400	-
<b>TOTAL</b>	<b>5 589 918 300</b>	<b>5 623 917 100</b>	<b>33 998 800</b>

#### **Explanations for increases/ decreases in expenditure have been provided:**

As per 2025/2026 Budget Policy contained on **DMS 1687735**, the 2024/2025 Adjusted Budget is based on the virements that have been done by the Departments to date. **There are no additional funds to be provided during the adjusted budget.** This means that Departments will be moving funds within their function ensuring prioritisation of service delivery projects.

There were few exceptions where additional funds were required in order for the City to be able to meet its service delivery targets. Although this additional expenditure has been budgeted for, it should be noted that most of the funds have been sacrificed from other projects or expenditure items.

A total of **R60,9 million** has been moved from other expenditure items to fund this additional expenditure. Notable expenditure items that were moved are:

- Employee Related Costs – R59,7 million;
- Transfers and Grants – R1,1 million.

### **Additional budget for projects / expenditure that was added:**

- **Depreciation and Asset Impairment** – The increase of R46,8 million in depreciation results from projects that were sitting as work-in progress during the Adopted Budget stage and were subsequently capitalised as completed assets that are depreciating at the end of June 2025. Housing Infrastructure assets from Empangeni Mega-Housing project were brought into the asset register as per agreement with the Department of Human Settlements, which also added to the depreciation expenditure.
- **Finance Charges** – an increase of R6 million as the actual interest rate for the R380 million loan is higher than the interest rate anticipated during the budget process.
- **Remuneration of Councillors** – an increase of R3,2 million - In terms of Council Resolution 17466 dated 24 October 2024, Council approved the upper limits for remuneration of Councillors with effect from 1 July 2023. This shortfall in Councillors remuneration be funded from savings under Employee related costs. Furthermore, provision was made for the increase of the Executive Committee member's remuneration effective from 10 December 2024.
- **Contracted Services Project Management** – an additional amount of R123,9 million has been provided for SAP for payment of Invoices.
- **Contracted Services Valuers and Assessors** – an additional amount of R7 million has been provided for the compilation of the General Valuation Roll.
- **Contracted Services Meter Management** – an additional amount of R6,1 has been provided for connections and disconnections of Municipal Services.
- **Other Expenditure – Hire Charges** – an additional amount of R7,5 million has been provided to hire earth moving equipment to fulfil Council's obligation as per MOU with Transnet to maintain Alkandstrand beach.
- **Other Expenditure – Commission Prepaid Electricity** – an additional amount of R3,6 million is due to under budgeting, the tender process was not finalised at the time the Budget was determined which led to under budgeting.

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

REVENUE BY SOURCE	ADOPTED BUDGET 2024/2025	PROPOSED ADJUSTMENT BUDGET 2024/2025	INCREASE/(DECREASE)
	R	R	R
<b>Exchange Revenue</b>			
Service Charges – Electricity revenue	2 542 822 400	2 348 456 700	(194 365 700)
Service Charges – Water revenue	643 500 000	572 907 000	(70 593 000)
Service charges - Waste Water Management	132 281 600	132 281 600	-
Service charges - Waste management	120 401 900	120 401 900	-
Sale of Goods and Rendering of Services	11 232 600	11 617 200	384 600
Housing Agreements Construction Contract	64 293 000	65 010 000	717 000
Agency services	8 364 800	8 364 800	-
Interest earned from Receivables	29 400	29 400	-
Interest from Current and Non Current Assets	45 000 000	45 000 000	-
Rent on Land	1 911 700	2 811 700	900 000
Rental from Fixed Assets	19 840 400	16 264 500	(3 575 900)
Operational Revenue	11 627 000	15 736 400	4 109 400
<b>Non-Exchange Revenue</b>			
Property rates	778 223 600	778 223 600	-
Surcharges and Taxes	6 207 900	7 832 900	1 625 000
Fines, penalties and forfeits	12 283 600	5 313 500	(6 970 100)
Licence and permits	3 631 700	3 631 700	-
Transfers and subsidies - Operational	587 345 000	592 697 200	5 352 200
Interest	870 000	1 870 000	1 000 000
Other Gains	27 840 600	27 845 000	4 400
Gains - Water Inventory	581 744 600	581 744 600	-
Capital Grants and Subsidies	219 003 000	227 008 100	8 005 100
<b>TOTAL OPERATING REVENUE</b>	<b>5 818 454 800</b>	<b>5 565 047 800</b>	<b>(253 407 000)</b>
<b>Less:</b>			
Capital Grants and Subsidies	(219 003 000)	(227 008 100)	(8 005 100)
<b>TOTAL REVENUE</b>	<b>5 599 451 800</b>	<b>5 338 039 700</b>	<b>(261 412 100)</b>



**Below are explanations for major increase / decreases in revenue:**

- Service Charges – Electricity: Decreased by R194,4 million and Service Charges - Water: Decreased by **R70,4 million** due to shut down of Mondi and Foskor while another large consumer, Bell Equipment installed solar panels. The persistent load shedding forced more business and residents to install solar panels and that will have a cumulative effect on electricity consumption over the 2024/2025 MREF and the outer years.
- Rental from Fixed Assets: Decreased by R3,6 million due to overstated budget. The SAP configuration double billed some accounts leading to overstated actuals and budget.
- Fines, Penalties and Forfeits: Decreased by R6,9 million due to the tender for traffic fines which lapsed and was not renewed.
- Operational Revenue: Increased by R4,1 million due to higher than anticipated revenue increases from Airport landing fees of R2 million and collection charges of R2.1 million.

### 3.6 Adjusted Capital 2024/2025

The table below indicates the 2024/2025 Proposed Adjustment Capital Budget by Function:

FUNCTION	ADOPTED BUDGET 2024/2025	PROPOSED ADJUSTMENT BUDGET 2024/2025	INCREASE/(DECREASE)
	R	R	R
Executive and Council	36 000	52 000	16 000
Finance and Administration	58 751 000	65 842 700	7 091 700
Community and Social Services	9 249 000	11 135 700	1 886 700
Sport and Recreation	19 361 000	31 117 700	11 756 700
Public Safety	675 000	675 000	-
Housing	3 198 000	3 198 000	-
Planning and Development	35 175 000	49 075 000	13 900 000
Road Transport	69 023 000	94 418 400	25 395 400
Environmental Protection	78 000	78 000	-
Air Transport - Air port	12 399 000	12 399 000	-
Energy Sources	76 690 300	76 690 300	-
Water Management	246 308 700	202 882 200	(43 426 500)
Waste Water Management	64 815 000	68 425 200	3 610 200
Waste Management	15 235 000	11 816 000	(3 419 000)
	<b>610 994 000</b>	<b>627 805 200</b>	<b>16 811 200</b>

The table below indicates the sources of funding for the 2024/25 Proposed Adjustment Capital Budget:

SOURCE OF FUNDING	ADOPTED BUDGET 2024/2025	PROPOSED ADJUSTMENT BUDGET 2024/2025	INCREASE/(DECREASE)
	R	R	R
Borrowing	380 000 000	380 157 400	157 400
Capital Replacement Reserve	11 991 000	18 074 400	6 083 400
Integrated Urban Development Grant	143 923 000	144 863 000	940 000
Government Grants - National	74 580 000	81 512 600	6 932 600
Government Grants - Provincial	500 000	632 500	132 500
Self Insurance Reserves	-	2 565 300	2 565 300
<b>TOTAL</b>	<b>610 994 000</b>	<b>627 805 200</b>	<b>16 811 200</b>

#### 4. ADJUSTMENTS BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1716353**) 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 SB8	Expenditure on transfers and grant programmes	U
Table SB9	Reconciliation of transfers, grants and unspent funds	V
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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 1716318**) 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 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 2024/25 Capital Budget (**DMS 1716318 - Annexure AK**).

### **10. MUNICIPAL MANAGER'S QUALITY CERTIFICATION**

Refer to **Annexure AZ** (**DMS 1716556**).

## **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.

## DISCUSSION HELD AT THE FINANCIAL SERVICES PORTFOLIO COMMITTEE ON 19 FEBRUARY 2025

The Chief Financial Officer (CFO) presented the Adjustment Budget report to the Committee, emphasizing that this matter is related to compliance. It was noted that the Budget was submitted to the National Treasury on Monday, 17 February 2025 for evaluation of the municipality's budget and performance during their oversight process. Currently, the municipality is facing a budget deficit of R295 million, which is not on a favourable trajectory. Moving forward, the municipality must implement stricter budget cost containment measures, which have already yielded some positive financial results. It bears noting that the National Treasury did support the Adjustment Budget but by May, when the Administration returns to the National Treasury, the financial figures must show improvement.

The CFO highlighted challenges related to revenue and expenditure, with the most significant issue being the decrease in electricity revenue, which has fallen by R194 million. When the budget was approved, it was anticipated that electricity would yield a surplus, however, the reduction in electricity costs has negatively impacted the budget. Additionally, there is a water deficit amounting to R71 million. The municipality must also ensure the collection of rental income from fixed assets and review properties that are currently benefiting from nominal rentals. The collection of fines and penalties is another concern and the Traffic Department needs to evaluate its operations and effectively enforce the various laws and bylaws of the municipality. However, this category should not be seen as a reliable source of income, as it is related to human behaviour. Other important expenditure categories affecting the budget include employee-related costs, depreciation of assets, finance charges for loan payments, and contracted services.

Moreover, the airport is an essential service impacting the budget and should operate as a business. Although its services are currently managed by the municipality, it needs to start generating a profit, as the current situation is not sustainable. On a positive note, recognition was given to the Waste Management Unit for their hard work and improvements observed, although there is always room for further enhancement.

The Committee was informed that a study is underway focusing on reducing electricity consumption, with two committees established to explore trading services and alternative energy sources. The goal is to enhance the budget for the upcoming financial year. Various energy supply options are being considered, including the use of solar panels by the municipality. While these innovations are promising, they should not compromise the municipality's sustainability. The water service is another major revenue source, and the decrease in this trading service is a serious concern. The Administration must urgently develop a business plan to ensure that this service operates in the best interest of Council.

### RECOMMENDED THAT:

1. the 2024/2025 Adjustment Medium Term Revenue and Expenditure Framework (MTREF) be approved as set out in **Budget Tables B1 – B10 (DMS 1716353)**;
2. the report on the 2024/2025 Adjustment Budget be submitted to both the National Treasury and Provincial Treasury;
3. it be noted that any adjustments made to the 2024/2025 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 to contribute to the Capital Replacement Reserve for future years' capital projects;

5. to re-instate the municipality's internal reserves and working capital, loan funded projects that have not commenced be held in abeyance and funds be directed to already commenced and completed Capital Replacement Reserve funded projects;
6. Capital Replacement Reserve funded projects that have not commenced be held in abeyance to ensure the re-instatement of the municipality's internal reserves and working capital;
7. the revised capital projects as per Component 5 of the 2024/2025 SDBIP (**DMS 1716318 – Annexure AY**) be approved;
8. Capital Projects amounting to R34 736 900 (**list contained on DMS 1724188 – Annexure BA**) funded from Borrowings be redirected to fund other critical capital projects;
9. it be noted that Departments need to re-prioritise their operational activities to identify savings to fund the deficit;
10. it be noted that Departments must ensure strict compliance with the cost containment measures as contained in the City Manager's memorandum (**DMS 1632895 and 1647462**);
11. it be noted that Departments must ensure revenue income is improved especially where such were budgeted but are now no longer meeting targets; and
12. only in situations of absolute service delivery emergency, will requisitions for Goods and Services be entertained by the Supply Chain Management Unit after 30 May 2025 for the 2024/2025 financial year.