

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY
MAYORAL COMMITTEE MEETING**

2020.10.21

ITEM A-F (79-2020)

SECOND SPECIAL ADJUSTMENTS TO THE BUDGET (OPERATING AND CAPITAL) FOR 2020/21 FINANCIAL YEAR DUE TO THE APPROVAL OF HUMAN SETTLEMENTS DEVELOPMENT GRANT (HSDG) AND LIBRARY GRANTS (TOWNSHIP INITIATIVES) ROLLOVER APPLICATIONS

PURPOSE

To recommend that Council approves the second special adjustments made to the 2020/21 Capital and Operating Budget. The second special adjustments are due to the approval of appeal by the City to the decision of the Gauteng Provincial Treasury and the Provincial Transferring Department rejecting the HSDG roll-over application. The amount that was rejected is **R63 540 628**.

Furthermore, an unspent amount of R4 365 378 of the township initiatives was requested for a rollover, however a total amount of **R 2 744 475** has been approved and R 1 620 901 has been rejected as per the letter dated 07 October 2020. An appeal for the rejected amount will be submitted within 7 days.

Finally, a recommendation is made to Council to approve activation of short-term financing option of **R400.0 million**, from the existing R200.0 million, due to the ongoing impact of the lockdown on the collection levels {Council Resolution 10 of **Item A-F (28-2020)**}.

STRATEGIC PRIORITY

Promoting good governance.

WARDS AFFECTED

All wards

IDP LINKAGE

Good Governance

EXECUTIVE SUMMARY

HSDG

The 2020/21 **first special adjusted budget** was approved by Council on the 30th September 2020. This first special adjustment budget was due to additional allocations from national and provincial government as well as the approved rollover of the Human Settlements Development Grant from the previous financial year.

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An unspent amount of R419 375 677 of the Human Settlements Development Grant was requested for rollover, however a total amount of R355 833 049 was approved and R 63 540 628 was rejected. In a letter dated 16 September 2020 the City appealed this rejection (**Annexure A**). In a subsequent letter dated 7th October 2020 (**Annexure B**) the provincial government **approved the appeal of the amount of R63 540 628**.

The Human Settlements Development Grant is a conditional operating grant in nature. It is used for the fitment of top structures of housing units. It is important to note that the approval of rollover is on a specific project, namely **“construction of 500 units at Thembisa Extension 25”**.

SRAC Grant

An unspent amount of R4 365 378 of the township initiatives was requested for a rollover, however a total amount of **R 2 744 475** has been approved and R 1 620 901 has been rejected as per the letter dated 07 October 2020 (**Annexure C**). An appeal for the rejected amount will be submitted within 7 days.

The table below shows the changes in these provincial grants.

Grant name	Grant type	2020/21 Original Budget	1 st Adjustment (30 September 2020)	2 nd Adjustment (Approved Appeal / Roll over)	2020/21 Budget After Adjustments
Recapitalisation of Community Libraries (SRAC)	Capex	8 500 000	500 000	320 014	9 320 014
Libraries Plan (SRAC)	Opex	11 000 000	(2 500 000)	2 424 461	10 924 461
Human Settlements Development Grant (HSDG)	Opex	-	356 393 595	63 540 628	419 934 223
Total		19 500 000	354 393 595	66 285 103	440 178 698

This **second special adjustment budget** is appropriating the amount of **R66 285 103** to the budget.

DISCUSSION

Section 28(1) of the MFMA provides that “A municipality may revise an approved annual budget through an adjustment budget”.

Section 28(2)(b) provides that “an adjustment budget **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**. This means that no new projects or programmes may be included in an adjustments budget.

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Furthermore, paragraph 23(2) of the Municipal Budget and Reporting Regulations, issued in Government Gazette 32141 dated 17 April 2009, provide that:-

“Only one adjustments budget referred to in sub-regulation (1) may be tabled in the municipal council during a financial year, except when additional revenues contemplated in section 28(2)(b) of the Act are allocations to a municipality in a national or provincial adjustments budget...”

Finally, paragraph 23(3) of the abovementioned regulations provide that-

“If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within sixty (60) days of the approval of the relevant national or provincial adjustments budget, table an adjustment budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues”.

Cognisance should also be taken of the requirements as set out in Chapter 4 of the Municipal Budget and Reporting Regulations (Gazette 32141-issued 17 April 2009, B Schedule) which covers the following:

- Section 21: Formats of adjustment budget;
- Section 22: Funding of adjustment budget;
- Section 23: Timeframes for tabling of adjustment budget;
- Section 24: Submission of tabled adjustment budget;
- Section 25: Approval of adjustment budget;
- Section 26: Publication of approved adjustment budget; and
- Section 27: Submission of approved adjustment budget.

The following Annexures are attached:

- Annexure A:** CoE Appeal Letter to Provincial Treasury – HSDG
- Annexure B:** Provincial Treasury HSDG Appeal Approval
- Annexure C:** Provincial Treasury SRAC grant Roll over Approval
- Annexure D:** Adjustments to the Operating Budget
- Annexure E:** Adjustments to the Capital Budget
- Annexure F:** National Treasury B-Schedule

The tables below show the consolidated **Second Special Operating and Capital Adjustments Budget** for the 2020/21 financial year.

SECOND SPECIAL ADJUSTMENTS TO THE OPERATING BUDGET

Operating revenue

The table below shows the **upward adjustments** in the operating revenue from R42.634 billion to R42.700 billion, an increase of R65.96 million. **Annexure D** shows an analysis of the increase.

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2020/21 Special Consolidated Adjusted operating revenue

Description	Budget Year 2021				Second Adj Budget R
	First Adj Budget R	YTD Actual at 30 Sept R	% actuals %	Second Adjustments R	
Revenue By Source					
Property rates	6,140,478,219	1,479,715,927	24.1%	-	6,140,478,219
Service charges - electricity revenue	16,759,382,287	4,776,693,995	28.5%	-	16,759,382,287
Service charges - water revenue	5,697,863,429	1,076,776,769	18.9%	-	5,697,863,429
Service charges - sanitation revenue	1,966,130,136	451,731,387	23.0%	-	1,966,130,136
Service charges - refuse revenue	1,535,167,297	348,466,448	22.7%	-	1,535,167,297
Rental of facilities and equipment	126,584,561	64,690,117	51.1%	-	126,584,561
Interest earned - external investments	233,777,555	53,373,286	22.8%	-	233,777,555
Interest earned - outstanding debt	392,757,946	68,961,338	17.6%	-	392,757,946
Dividends received	-	-	0.0%	-	-
Fines, penalties and forfeits	579,684,671	27,667,968	4.8%	-	579,684,671
Licences and permits	250,023,261	94,866,821	37.9%	-	250,023,261
Agency services	-	-	0.0%	-	-
Transfers and subsidies	5,750,117,240	1,908,863,032	33.2%	65,965,089	5,816,082,329
Other revenue	3,202,651,392	1,011,176,701	31.6%	-	3,202,651,392
Gains on disposal of PPE	-	-	0.0%	-	-
Total Revenue (excluding capital transfers and contributions)	42,634,617,994	11,362,983,789	27%	65,965,089	42,700,583,083

The increase in operating revenue is in the transfers and subsidies, amounting to R63 540 628 of the HSDG, which is a rollover that was previously rejected, as well as the SRAC provincial grants roll over of R2 424 461 which was approved on the 07th October 2020.

Operating expenditure

The net adjustments on operating expenditure is an increase of **R65.96 million** as depicted in the table below.

2020/21 Special Consolidated Adjusted operating expenditure

Description	Budget Year 2021				Second Adj Budget R
	First Adj Budget R	YTD Actual at 30 Sept R	% actuals %	Second Adjustments R	
Expenditure By Type					
Employee related costs	10,387,521,292	2,269,832,803	22%	-	10,387,521,292
Remuneration of councillors	142,795,066	35,464,504	25%	-	142,795,066
Debt impairment	3,377,811,030	765,091,958	23%	-	3,377,811,030
Depreciation & asset impairment	2,509,629,980	585,090,882	23%	-	2,509,629,980
Finance charges	1,202,120,003	169,263,475	14%	-	1,202,120,003
Bulk purchases	16,850,921,749	5,777,887,839	34%	-	16,850,921,749
Other materials	1,854,635,361	332,224,512	18%	635,000	1,855,270,361
Contracted services	4,535,715,272	753,681,719	17%	65,330,089	4,601,045,361
Transfers and subsidies	648,676,890	68,463,983	11%	-	648,676,890
Other expenditure	1,122,627,951	173,221,417	15%	-	1,122,627,951
Loss on disposal of PPE	13,000,000	36,681	0%	-	13,000,000
Total Expenditure	42,645,454,594	10,930,259,774	26%	65,965,089	42,711,419,683
Surplus/(Deficit)	(10,836,600)	432,724,014		-	(10,836,600)
Transfers and subsidies - capital	2,135,606,239	289,458,390	14%	320,014	2,135,926,253
Surplus/(Deficit) after capital transfers & contributions	2,125,089,653	34,266,216		320,014	2,125,089,653

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The table above shows that the category “**other materials**” increases by R635 000. This comprises of R135 000 for skills development and R500 000 for library development resources.

The category “**contracted services**” increases by R65.3 million. It comprises of R63.54 million of the housing top structures and R1.78 million for maintenance of library facilities.

SECOND SPECIAL ADJUSTMENTS TO THE CAPITAL BUDGET PER DEPARTMENT

The City’s capital budget is undergoing special adjustments because of the 2019/20 approved roll over in respect of the SRAC grant. The table below shows the summary of the special adjusted capital budget. The detail of the projects is contained in **Annexure E**.

2020/21 - 2ND ADJUSTMENT BUDGET PER DEPARTMENT						
Department	Original Budget 2020/21	Adjusted Budget 2020/21 (September 2020)	Expenditure as at 30 September 2020	% Spent	Proposed 2nd Adjustments 2020/21	Adjusted Budget after 2nd Adjustments 2020/21
Chief Operating Officer	70 140 000	70 140 000	3 397 698	4,84%		70 140 000
City Planning	300 000	300 000	-	0,00%		300 000
Communication and Brand Management	2 525 000	2 525 000	-	0,00%		2 525 000
Corporate Legal Services	55 000	55 000	-	0,00%		55 000
Council General	291 247 572	150 247 572	79 991 215	27,47%		150 247 572
Disaster & Emergency Management Services	106 700 000	106 700 000	10 517 502	9,86%		106 700 000
Economic Development	116 600 000	116 600 000	18 796 902	16,12%		116 600 000
Ekurhuleni Metro Police Department	77 038 500	77 038 500	1 924 122	2,50%		77 038 500
Energy	503 790 800	503 790 800	138 986 726	27,59%		503 790 800
Environmental Resources & Waste Management	274 300 000	274 300 000	41 237 835	15,03%		274 300 000
Executive Office	500 000	500 000	-	0,00%		500 000
Finance	170 000	170 000	56 850	33,44%		170 000
Health and Social Development	4 260 000	4 260 000	176 805	4,15%		4 260 000
Human Resources Management	75 000	75 000	17 710	23,61%		75 000
Human Settlements	726 439 000	675 604 000	50 571 621	6,96%		675 604 000
Information and Communication Technology	632 319 768	632 319 768	5 653 422	0,89%		632 319 768
Internal Audit	20 000	20 000	-	0,00%		20 000
Real Estate	238 362 914	238 362 914	52 231 908	21,91%		238 362 914
Risk Management	10 000	10 000	-	0,00%		10 000
Roads and Stormwater	452 248 075	452 248 075	6 173 421	1,37%		452 248 075
Sport Recreation Arts and Culture	75 289 030	75 789 030	16 431 747	21,82%	320 014	76 109 044
Strategy & Corporate Planning	10 000	10 000	-	0,00%		10 000
Transport Planning & Provision	478 206 300	364 482 300	20 126 377	4,21%		364 482 300
Water and Sanitation	668 941 764	668 941 764	111 000 459	16,59%		668 941 764
Brakpan Bus Company (BBC)	3 344 391	3 344 391	139 965	4,19%		3 344 391
Ekurhuleni Housing Company (EHC)	1 084 531	1 084 531	920 823	84,91%		1 084 531
ERWAT	206 000 000	206 000 000	6 927 119	3,36%		206 000 000
Total	4 929 977 645	4 624 918 645	565 280 228	11,47%	320 014	4 625 238 659

The amount of R320 014 was approved as roll-over for furniture in the libraries.

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Sources of Finance:

2020/21 - SPECIAL ADJUSTMENT BUDGET PER SOURCES OF FUNDING						
Source Of Finance	Original Budget 2020/21	Adjusted Budget 2020/21 (September 2020)	Expenditure as at 30 September 2020	% Spent	Proposed 2nd Adjustments 2020/21	Adjusted Budget after 2nd Adjustments 2020/21
External Loans	1 976 039 247	1 976 039 247	251 059 918	12,71%		1 976 039 247
Intergrated City Development Grant (ICDG)	53 577 000	53 577 000	2 231 183	4,16%		53 577 000
Neighborhood Development Partnership Grant (NDPG)	75 000 000	75 000 000	-	0,00%		75 000 000
SRAC Provincial Grant	8 500 000	9 000 000	-	0,00%	320 014	9 320 014
Public Transport Network Grant (PTNG)	358 000 000	244 276 000	6 642 172	1,86%		244 276 000
Revenue	513 273 159	513 273 159	24 863 670	4,84%		513 273 159
Urban Settlement Development Grant (USDG)	1 945 588 239	1 753 753 239	280 483 285	14,42%		1 753 753 239
Total	4 929 977 645	4 624 918 645	565 280 228	11,47%	320 014	4 625 238 659

The table above shows the sources of funding the special adjusted capital budget. The Capital spending funded by external borrowings as at 30 September 2020 was R251 million.

Activation of the short-term financing option of R400 000 000

There was a shortfall of R550 million on the **Ekurhuleni's Seventh Bond (EMM08P & EMM09P) Issuances** to fund the 2019/2020 Capital Infrastructure Program. This shortfall needed to be financed from existing Cash Reserves.

The City will be in a position to repay the R400.0 million short-term financing option by 31 December 2020 as required by section **Sec 45 of the MFMA**. This will be possible when new funds are received from the Equitable share allocations and new loans are raised to finance the capital expenditure programme as approved by Council on 25 June 2020, item **A-F (28-2020)**.

ORGANISATION AND HUMAN RESOURCE IMPLICATIONS

None.

FINANCIAL IMPLICATIONS

None.

LEGAL IMPLICATIONS

This report ensures compliance with Section 28 of the MFMA.

COMMUNICATION IMPLICATION

The second special adjusted budget will be communicated to all stakeholders and submitted to relevant organs of state.

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OTHER DEPARTMENTS/ BODIES CONSULTED

National Treasury and management were consulted on the special adjustment budget process.

RECOMMENDATION

1. **That** the report on the Second Special Adjustments to the Capital and Operating Budgets for 2020/21, **BE NOTED**.
2. **That** the Second Special Adjusted Capital and Operating Budgets for 2020/21, **BE APPROVED**.
3. **That** authority **BE GRANTED** to the City Manager and the Group Chief Financial Officer to negotiate a bridging finance to a **maximum amount of R400m**, in respect of bank overdraft facilities and/or the raising of short-term loans, including loans at call from Council's bankers, for the financial year ending 30 June 2021 in order to finance temporarily (within a period of one year) –
 - Expenditure on the Capital Budget; or
 - Expenditure on the Operating Budget incurred in anticipation of the receipt of revenue estimated.