

**CITY OF EKURHULENI METROPOLITAN MUNICIPALITY
ORDINARY COUNCIL MEETING**

2022.05.26

A-F (28-2022)

**SPECIAL ADJUSTMENTS TO THE BUDGET (OPERATING AND CAPITAL) FOR 2021/22
FINANCIAL YEAR DUE TO THE ISSUANCE BY NATIONAL TREASURY OF
GOVERNMENT GAZETTE 46095 DATED 25 MARCH 2022**

PURPOSE

To recommend that Council approves the **special adjustments** to the 2021/22 Capital and Operating Budget. These special adjustments are due to issuance by National Treasury of Government Gazette 46095 dated 25 March 2022 (**Annexure A**).

STRATEGIC PRIORITY

Promoting good governance

WARDS AFFECTED

All wards

IDP LINKAGE

Good Governance

EXECUTIVE SUMMARY

This is a short report so it does not necessitate an executive summary.

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.

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..."

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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”.

In a letter dated 15 February 2022, **Annexure B**, National Treasury informed the City of its intention to stop the Urban Settlements Development Grant (USDG), USDG, the Informal Settlements Upgrading Partnership Grant (ISUPG) and the Neighbourhood Development Partnership Grant (NDPG) due to under performance. The letter required the City to submit written representation regarding the stopping of the allocations in question.

The City duly provided the written representation in a letter dated 23 February 2022 (**Annexure C**). The written representation provided all the required evidence that the grants will be spent by the end of the financial year. The representation included commitments made to date, progress reports on affected projects, cash flows and the timelines. Nonetheless, National Treasury published government gazette 46095 on the 25 March 2022 without responding to the representation letter.

The City requested National Treasury to reconsider its stance once more, given the firm commitments already in place. In a letter dated 9 May 2022, **Annexure D**, National Treasury informed the City that it will not reconsider and the matter is closed. Treasury advised that if performance is accelerated in the new year against projects affected by the stopping, the National Department of Human Settlements and Treasury may, during the national adjustment budget process, consider increasing the allocations.

The table below shows the reductions made in the affected grants:

Grant Name	Initial allocation (R)	Adjusted gazette (R)	New Allocation (R)	Grant component
Informal Settlements Upgrading Partnership Grant	688 066 000	(15 167 000)	672 899 000	Opex
Urban Settlements Development Grant	1 292 347 000	(250 000 000)	1 041 347 000	Capex
Provincial Library Grant	27,086,996	(7 00 0000)	20 086 996	Capex
Provincial Library Grant	10,447,170	7 000 000	17,447,170	Opex

The table above shows that the reductions affected both the capital and operating budgets.

Given the necessity to adjust the budget because of the reductions in the grants, the city considered it appropriate and financially prudent to adjust the budget based on performance to date.

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:

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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: Government Gazette 46095 dated 25 March 2022
Annexure B: National Treasury grant stopping letter
Annexure C: CoE representation on grant stopping
Annexure D: National Treasury finalisation
Annexure E: Special adjustments to Operating Budget
Annexure F: special adjustments to Capital Budget

THIRD SPECIAL ADJUSTMENTS TO THE OPERATING BUDGET

Operating Revenue

The table below shows the **upward adjustments** in the operating revenue from R44.7 billion to R45.4 billion, an increase of R674.3 million. **Annexure E** shows the details of the adjustments.

Special adjustments to consolidated operating expenses

Description	Budget Year 21/22				Proposed adjustments	2021/22 Budget after adjustment
	2021/22 Revised Budget R	YTD Budget as at end of April 2022 R	YTD Movement as at end of April 2022 R	YTD variance %		
Revenue By Source						
Property rates	7,581,352,036	6,107,793,068	6,662,598,012	88%	450,000,000	8,031,352,036
Service charges - electricity revenue	18,022,467,596	15,090,620,482	14,571,420,536	81%	-	18,022,467,596
Service charges - water revenue	5,230,162,808	4,357,863,463	4,445,172,936	85%	100,000,000	5,330,162,808
Service charges - sanitation revenue	2,070,698,373	1,711,637,818	1,771,273,726	86%	70,000,000	2,140,698,373
Service charges - refuse revenue	1,546,062,461	1,280,265,123	1,335,445,008	86%	-	1,546,062,461
Rental of facilities and equipment	124,118,652	105,543,407	115,187,478	93%	-	124,118,652
Interest earned - external investment	75,001,853	88,168,180	92,366,556	123%	-	75,001,853
Interest earned - outstanding debtor	449,232,694	351,027,160	437,459,505	97%	100,000,000	549,232,694
Fines, penalties and forfeits	779,684,671	602,872,789	89,602,415	11%	-	779,684,671
Licences and permits	309,884,050	244,236,226	253,390,699	82%	-	309,884,050
Transfers and subsidies	5,297,376,380	5,062,922,668	4,644,070,243	88%	(45,610,161)	5,251,766,219
Other revenue	3,245,536,137	2,997,589,813	2,926,249,168	90%	-	3,245,536,137
Total Revenue (excluding capital transfers and contributions)	44,731,577,711	38,000,540,198	37,344,236,282	83%	674,389,839	45,405,967,550

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The adjustments in the various line items are based on year-to-date performance, while adjustments in transfers and subsidies are the net effect of conditional grant changes.

Operating Expenditure

The table below shows that operating expenditure is adjusted from R44.5 billion to R45.2 billion.

Description	Budget Year 21/22				Proposed adjustments	2021/22 Budget after adjustment
	2021/22 Revised Budget R	YTD Budget as at end of April 2022 R	YTD Movement as at end of April 2022 R	YTD variance %		
Expenditure By Type					-	-
Employee related costs	10,105,119,405	8,485,672,011	8,228,744,190	81%	(487,200)	10,104,632,205
Remuneration of councillors	155,879,152	129,899,580	117,114,562	75%		155,879,152
Debt impairment	4,512,352,923	3,497,597,659	3,504,059,666	78%	175,000,000	4,687,352,923
Depreciation & asset impairment	2,505,909,100	2,088,258,000	2,090,975,181	83%		2,505,909,100
Finance charges	1,487,373,596	1,054,608,497	687,766,631	46%	(100,000,000)	1,387,373,596
Bulk purchases - electricity	14,224,084,756	11,495,633,581	11,566,735,131	81%		14,224,084,756
Inventory consumed	4,948,748,950	4,070,427,744	4,467,284,830	90%	338,833,798	5,287,582,748
Contracted services	4,834,921,918	3,910,732,305	3,277,253,927	68%	278,183,000	5,113,104,918
Transfers and subsidies	580,156,070	500,881,033	355,604,102	61%	(37,443,981)	542,712,089
Other expenditure	1,233,737,417	997,003,616	1,020,876,718	83%	20,304,222	1,254,041,639
Loss on disposal of PPE	3,000,000	4,833,340	4,146,737	138%		3,000,000
Total Expenditure	44,591,283,287	36,235,547,366	35,320,561,675	79%	674,389,839	45,265,673,126
Surplus/(Deficit)	140,294,424	1,764,992,831	2,023,674,607		-	140,294,424

Adjustments are due to year performance and commitments to date as well as the changes in the grant related expenditure. The surplus for the year remains unchanged at R140.2 million.

These adjustments are made to ensure that the budget is credible, and that there is efficient and effective allocation of limited resources in a justifiable manner for all departments and all expenditure items.

SPECIAL ADJUSTMENTS TO THE CAPITAL BUDGET PER DEPARTMENT

The table below shows the summary of the special adjusted capital budget. The detail of the projects is contained in **Annexure F**.

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Special Adjusted Capital Budget per Department

Department	Adjusted Budget	2021/22 Act Exp Incl Comm as at 30 April 2022	% spent incl Comm	2021/22 Net Proposed Adjustment	2021/22 Budget after Adjustment
Chief Operating Officer	37,642,310	642,326	1.71%	-	37,642,310
City Planning	300,000	78,860	26.29%	-	300,000
Communication and Brand Mar	5,025,000	25,000	0.50%	-	5,025,000
Council General	64,567,852	25,368,312	39.29%	-	64,567,852
Disaster & Emergency Management Services	39,600,000	27,356,915	69.08%	(9,953,760)	29,646,240
Economic Development	64,500,000	1,747,631	2.71%	(21,200,000)	43,300,000
Ekurhuleni Metro Police Department	40,946,879	17,458,047	42.64%	-	40,946,879
Energy	401,149,784	261,244,432	65.12%	(100,000)	401,049,784
Environmental Resources & Wa	135,900,000	63,629,113	46.82%	-	135,900,000
Executive Office	250,000	85,444	34.18%	-	250,000
Finance	150,000	31,900	21.27%	-	150,000
Health and Social Development	1,656,686	1,656,603	99.99%	-	1,656,686
Human Resources Management	75,000	74,978	99.97%	-	75,000
Human Settlements	640,504,820	370,227,765	57.80%	(38,861,443)	601,643,377
Information and Communicatio	429,793,219	330,109,115	76.81%	29,406,998	459,200,217
Internal Audit	20,000	19,200	96.00%	-	20,000
Real Estate	137,417,735	36,389,841	26.48%	(28,668,998)	108,748,737
Roads and Stormwater	313,759,448	174,913,571	55.75%	(23,694,575)	290,064,873
Sport Recreation Arts and Cultu	48,045,307	4,123,171	8.58%	(7,638,000)	40,407,307
Strategy & Corporate Planning	10,000	10,000	100.00%	-	10,000
Transport Planning & Provision	287,605,954	157,047,687	54.61%	10,000,000	297,605,954
Water and Sanitation	667,322,124	290,422,934	43.52%	(150,000,000)	517,322,124
Brakpan Bus Company (BBC)	3,454,957	29,000	0.84%	-	3,454,957
(EHC)	84,032,535	17,787,064	21.17%	-	84,032,535
ERWAT	167,100,000	68,184,713	40.80%	(11,443,981)	155,656,019
Total	3,570,829,610	1,848,663,621	51.77%	(252,153,760)	3,318,675,850

The effect of the special adjustments is to decrease capital budget from R3.5 billion to R3.3 billion, a net decrease of R252.1 million. These adjustments will ensure that over 95% of the capital budget, and close to 100% of conditional grants, are spent by the end of the financial year.

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Sources of Finance

Source Of Finance	Adjusted Budget	2021/22 Act Exp Incl Comm as at 30 April 2022	% spent incl Comm	2021/22 Net Proposed Adjustment	2021/22 Budget after Adjustment
External Loans	996,624,569	540,641,505	54.25%	(31,558,000)	965,066,569
ISUPG	657,549,015	421,901,592		-	657,549,015
NDPG	65,457,265	16,655,192	25.44%	-	65,457,265
Provincial Grant	27,086,996	932,639	3.44%	(7,000,000)	20,086,996
PTNG	242,163,000	116,234,485	48.00%	-	242,163,000
Revenue	307,042,490	137,195,629	44.68%	36,404,240	343,446,730
USDG	1,274,415,126	615,102,579	48.27%	(250,000,000)	1,024,415,126
ICDG	491,149	-	0.00%	-	491,149
Total	3,570,829,610	1,848,663,621	51.77%	(252,153,760)	3,318,675,850

The table above shows the sources of funding the special adjusted capital budget. Although the grants were reduced, they still form a significant funding source of the capital budget.

LEGAL IMPLICATIONS

This report ensures compliance with Section 28 of the MFMA.

COMMUNICATION IMPLICATION

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

OTHER DEPARTMENTS/ BODIES CONSULTED

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

RECOMMENDATION

1. **That** the report on the Special Adjustments to the Capital and Operating Budgets for 2021/22 **BE NOTED**.
2. **That** the Special Adjusted Capital and Operating Budgets for 2021/22 **BE APPROVED**.