

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

2023.02.02

A-F (11-2023)

**ADJUSTED CAPITAL AND OPERATING BUDGET FOR 2022/23 FINANCIAL YEAR**

**1. PURPOSE**

The purpose of this report is to recommend that Council **approves** adjustments made to the 2022/23 SDBIP, Capital and Operating Budgets as well as grants. This report is divided into two parts as follows:

- The first part deals with adjustments to the operating and capital budgets, including conditional grants; and
- The second part covers adjustments to the city-wide and departmental Service Delivery and Budget Implementation Plans (SDBIPs).

**2. STRATEGIC PRIORITY**

To promote good governance and report on the financial sustainability of the City.

**3. WARDS AFFECTED--**

All wards.

**4. IDP LINKAGE**

Good Governance.

**5. EXECUTIVE SUMMARY**

The main adjustment budget is required by section 28 of the Municipal Finance Management Act. The factors that contributed to this adjustment are:

- Actual performance of the budget for the past six months of the financial year; and
- Approved roll overs of capital grants (ISUPG amounting to R7.0 million) which has to be appropriated.

The table below depicts a summary of adjustments to both capital and operating budgets, **which includes adjustments to the entities' budgets.**

<b>CONSOLIDATED</b>	<b>2021/22 Original Budget</b>	<b>YTD Actuals as at 31 Dec 2022</b>	<b>% Spent</b>	<b>Proposed Adjustments</b>	<b>2020/21 Budget after adjustments</b>
Total operating revenue (excluding capital transfers and contributions)	48,266,991,337	26,015,209,270	54%	2,371,901,177	50,638,892,514
Total operating expenditure	47,966,991,337	24,636,508,783	51%	2,371,901,177	50,338,892,514
<i>Surplus/(Deficit)</i>	300,000,000	1,378,700,487		0	300,000,000
<i>Total Capital Budget</i>	3,323,852,796	869,230,905	26.15%	(43,603,918)	3,280,248,878

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The table above shows that at a consolidated level, the total operating revenue **increases** by **R2.37 billion** while the operating expenditure **increases** by the same amount. The operating surplus after adjustments **is maintained at R300 million as in the original budget**. The reasons for these changes are elaborated in section 6.2 below.

The consolidated capital budget is **adjusted downwards by R43.60 million** from R3.32 billion to R3.28 billion.

## **6. BACKGROUND AND DISCUSSION**

### **6.1. LEGISLATIVE BACKGROUND**

Section 28 of the Municipal Finance Management Act (MFMA, 56 of 2003) deals with adjustments budgets. In terms of the Act, an adjustments budget is intended to do the following:

#### Sub-Section 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.*

Cognisance should also be taken of the requirements as set out in Chapter 4 of the Municipal Budget and Reporting Regulations, which addresses 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.

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The following Annexures are provided:

- Adjustments of the Operating Budget **(Annexure A)**
- Adjustments of the Capital Budget **(Annexure B)**

## 6.2. ADJUSTMENTS TO THE OPERATING BUDGET

The adjustments to the operating revenue and expenditure are presented in the sections below.

### 6.2.1. Operating revenue

The table below shows the **upward adjustments** in the operating revenue by **R2.37** billion. The details of the adjusted operating revenue and expenditure are contained in **Annexure A**.

#### 2022/23 Adjusted operating revenue

Description	Audited Outcome - 2021/22	Amended Budget - 2022/23	2022/23 YTD Movement - as at 31st Dec 2022 (incl comm)	% Actuals	Balance Remaining	Budget Office Recommendations	2022/23 Draft Adjusted Budget	Comments
	R	R	R		R	R	R	
<b>Revenue By Source</b>								
Property rates	7,805,420,006	7,581,352,036	3,797,096,987	50%	3,784,255,049	650,000,000	8,231,352,036	Supplementary Valuation
Service charges - electricity revenue	17,206,798,758	19,760,579,818	10,047,243,721	51%	9,713,336,097		19,760,579,818	
Service charges - water revenue	5,294,036,540	6,091,505,528	2,907,165,430	48%	3,184,340,098	100,000,000	6,191,505,528	Additional consumption linked to an increase on the bulk.
Service charges - sanitation revenue	2,117,303,825	2,298,639,109	1,566,593,460	68%	732,045,649	600,000,000	2,898,639,109	Additional consumption linked to an increase on the bulk.
Service charges - refuse revenue	1,614,825,174	1,719,415,847	822,449,832	48%	896,966,015		1,719,415,847	
Rental of facilities and equipment	139,088,127	133,858,854	70,410,451	53%	63,448,403		133,858,854	
Interest earned - Investments	115,565,330	80,637,665	55,754,648	69%	24,883,017	14,700,000	95,337,665	Investment increase from Erwat due to healthy liquidity position
Interest earned - Outstanding Debtors	558,417,219	430,374,355	763,223,600	177%	(332,849,245)	750,000,000	1,180,374,355	Low collection increasing debt impairment
Fines, penalties and forfeits	588,119,922	817,243,638	66,520,417	8%	750,723,221		817,243,638	
Licences and permits	295,228,155	324,758,486	178,361,744	55%	146,396,742		324,758,486	
Transfers and subsidies	6,890,231,105	5,681,696,947	3,712,096,693	65%	1,969,600,254	235,601,177	5,917,298,124	Increase Programme Support grant (EPMO), HSDG approved roll over, Public Employment grant (Econ Dev)
Other revenue	474,300,480	3,346,929,054	2,028,292,287	61%	1,318,636,767	21,600,000	3,368,529,054	ERWAT increase on Service charges
Gains on disposal of PPE	353,681,639	-	-		-		-	
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>43,453,016,282</b>	<b>48,266,991,337</b>	<b>26,015,209,270</b>	<b>54%</b>	<b>22,251,782,067</b>	<b>2,371,901,177</b>	<b>50,638,892,514</b>	

It should be pointed out that the increase in revenue, particularly in assessment rates, service charges and interest on debtors are adjustments in billings. This means that the increases are not real cash in the bank. The real cash increases are in transfers and subsidies and the increase in laboratory charges from ERWAT. The expenditure table below will show that these increases are applied to debt impairment as the collection levels are below the planned target.

### 6.2.2. Operating expenditure

The operating expenditure **increases** from R47.96 billion to R50.33 billion, an increase of R2.37 billion. The table below shows the details of the increases in the various line items.

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**2022/23 Adjusted operating expenditure**

Description	Audited Outcome - 2021/22	Amended Budget - 2022/23	2022/23 YTD Movement - as at 31st Dec 2022 (incl comm)	% Actuals	Balance Remaining	Budget Office Recommendations	2022/23 Draft Adjusted Budget	Comments
	R	R	R		R	R	R	
	<b>Expenditure By Type</b>							
Employee related costs	9,870,423,677	10,810,895,988	5,105,896,342	47%	5,704,999,646	(12,800,000)	10,798,095,988	Transfer to Skills development levy which is linked to employee related costs
Remuneration of councillors	145,072,917	150,854,782	73,332,984	49%	77,521,798	-	150,854,782	
Debt impairment	4,854,125,342	4,703,780,642	2,370,681,912	50%	2,333,098,730	1,000,000,000	5,703,780,642	Linked to low collection on o/s debtors
Depreciation & asset impairment	2,745,841,586	2,842,210,754	1,420,760,589	50%	1,421,450,165	200,000,000	3,042,210,754	Linked to low collection on o/s debtors
Finance charges	1,363,093,917	1,489,922,883	547,383,206	37%	942,539,677	(15,000,000)	1,474,922,883	Reduction of finance cost from Erwat.
Bulk purchases	14,455,766,241	15,418,907,875	7,719,113,785	50%	7,699,794,090		15,418,907,875	
Other materials & inventory consumed	5,501,740,680	5,536,398,524	2,929,049,249	53%	2,607,349,275	610,000,000	6,146,398,524	Additional water purchases – Rand water.
Contracted services	4,190,673,388	5,321,929,120	3,531,457,750	66%	1,790,471,370	405,201,177	5,727,130,297	Cost of implementation of the revenue enhancement and balancing of operating cost.
Transfers and subsidies-exp	377,226,653	523,919,665	253,312,151	48%	270,607,514	73,500,000	597,419,665	Grant funded from Public employment grant – R58.4 million and R15 million EHC salaries.
Other expenditure	1,151,382,522	1,168,171,104	685,520,816	58%	482,650,288	111,000,000	1,279,171,104	SDL transferred from employee related costs and ERWAT expenditure increase based on increased revenue.
Loss on disposal of PPE	141,819,282	-	-	-	-	-	-	
<b>Total Expenditure</b>	<b>44,797,166,202</b>	<b>47,966,991,337</b>	<b>24,636,508,783</b>	<b>51%</b>	<b>23,330,482,554</b>	<b>2,371,901,177</b>	<b>50,338,892,514</b>	
<b>Surplus/(Deficit)</b>	<b>(1,344,149,921)</b>	<b>300,000,000</b>	<b>1,378,700,487</b>		<b>(1,078,700,487)</b>	<b>-</b>	<b>300,000,000</b>	

The reasons for the increases are reflected in the table above. Of importance to note is that a significant amount of the increase is in debt impairment. This is due to the fact that the collection level is below the target, hence an increase in the impairment of the billings that cannot be converted into cash from collections. The other significant increase is in water inventory. This is due to the fact that water purchases is showing under performance at mid-year.

**6.3. ADJUSTMENTS TO THE CAPITAL BUDGET**

The proposed adjustments to the **City's** capital budget results in a **net decrease of 113,943,658 million**. The adjustments to the **entities** capital budget is an **increase of R70.33 million**. The capital budget of the **City and its entities** results in a **net decrease of R43.60 million**. The capital budget, therefore, **decreases** from R3.32 billion to R3.28 billion.

The proposed adjustment is a combination of:

- Reduction in own revenue by R28.61 and external loans funded projects by R55.50 million;
- Allocation of 2021/22 unspent grants approved for roll-over to 2022/23; and
- Transfer of grants between capital and operating budgets to ensure optimal utilisation of those grants.

**Annexure B** contains the original budget, adjustments and the new budget.

The proposed capital adjustment per department is summarised in the table below:

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**2022/23 PROPOSED CAPITAL ADJUSTMENT PER DEPARTMENT**

<b>2022/23 PROPOSED CAPITAL BUDGET ADJUSTMENT - PER DEPARTMENT</b>									
<b>Department</b>	<b>2022/23 Original Budget</b>	<b>2022/23 Act Exp Excl Comm as at 6 Jan 2023</b>	<b>% spent excl Comm</b>	<b>2022/23 Act Exp Incl Comm as at 6 Jan 2023</b>	<b>% spent incl Comm</b>	<b>Additional Requests (+)</b>	<b>Reduction (-)</b>	<b>2022/23 Net Proposed Adjustment</b>	<b>2022/23 Budget after Adjustment</b>
Chief Operating Officer	34,000,000	-	0.00%	-	0.00%			-	34,000,000
City Planning	300,000	92,474	30.82%	92,474	30.82%		-	-	300,000
Communication and Brand Management	50,000	-	0.00%	-	0.00%		(50,000)	(50,000)	-
Council General	29,000,000	3,845,656	13.26%	3,845,656	13.26%			-	29,000,000
Disaster & Emergency Management Services	36,000,000	531,764	1.48%	1,282,819	3.56%	5,000,000	(8,000,000)	(3,000,000)	33,000,000
Economic Development	58,000,000	-	0.00%	-	0.00%	250,000	(33,000,000)	(32,750,000)	25,250,000
Ekurhuleni Metro Police Department	37,000,000	8,748,296	23.64%	8,748,296	23.64%		(1,500,000)	(1,500,000)	35,500,000
Energy	558,033,106	297,842,250	53.37%	325,315,489	58.30%	36,700,000		36,700,000	594,733,106
Environmental Resources & Waste Management	126,000,000	19,048,501	15.12%	33,491,777	26.58%	24,000,000	(2,250,000)	21,750,000	147,750,000
Executive Office	750,000	29,560	3.94%	29,560	3.94%		(500,000)	(500,000)	250,000
Finance	50,000	-	0.00%	-	0.00%		(50,000)	(50,000)	-
Health and Social Development	5,050,000	-	0.00%	-	0.00%		(5,050,000)	(5,050,000)	-
Human Resources Management	150,000	-	0.00%	-	0.00%		(100,000)	(100,000)	50,000
Human Settlements	582,000,000	187,232,690	32.17%	187,232,690	32.17%	24,294,989	(50,964,002)	(26,669,013)	555,330,987
Information and Communication Technology	272,000,000	123,617,392	45.45%	148,582,900	54.63%	28,000,000	(28,000,000)	-	272,000,000
Legislature	537,500	-	0.00%	-	0.00%		(537,500)	(537,500)	-
Real Estate	173,136,190	7,846,986	4.53%	7,846,986	4.53%	57,000,000	(81,500,000)	(24,500,000)	148,636,190
Roads and Stormwater	283,287,922	45,335,314	16.00%	49,888,841	17.61%	30,956,225	(50,133,370)	(19,177,145)	264,110,777
Sport Recreation Arts and Culture	41,375,790	7,240,502	17.50%	7,240,502	17.50%			-	41,375,790
Strategy & Corporate Planning	10,000	-	0.00%	-	0.00%		(10,000)	(10,000)	-
Transport Planning & Provision	304,000,000	53,559,767	17.62%	53,559,767	17.62%		(44,000,000)	(44,000,000)	260,000,000
Water and Sanitation	690,250,000	52,512,572	7.61%	108,887,222	15.78%	2,500,000	(17,000,000)	(14,500,000)	675,750,000
Ekurhuleni Housing Company (EHC)	1,313,488	-	0.00%	-	0.00%	49,228,096		49,228,096	50,541,584
ERWAT	91,558,800	61,747,183	67.44%	61,747,183	67.44%	42,326,046	(21,214,402)	21,111,644	112,670,444
<b>Total</b>	<b>3,323,852,796</b>	<b>869,230,905</b>	<b>26.15%</b>	<b>997,792,158</b>	<b>30.02%</b>	<b>300,255,356</b>	<b>(343,859,274)</b>	<b>(43,603,918)</b>	<b>3,280,248,878</b>
Parent Municipality	3,230,980,508	807,483,722	24.99%	936,044,976	28.97%	208,701,214	(322,644,872)	(113,943,658)	3,117,036,850
Entities	92,872,288	61,747,183	66.49%	61,747,183	66.49%	91,554,142	(21,214,402)	70,339,740	163,212,028
<b>Grand Total</b>	<b>3,323,852,796</b>	<b>869,230,905</b>	<b>26.15%</b>	<b>997,792,158</b>	<b>30.02%</b>	<b>300,255,356</b>	<b>(343,859,274)</b>	<b>(43,603,918)</b>	<b>3,280,248,878</b>

The table shows, amongst others, that;

- Capital budget spending as at end December amounted to R869.23 million, or 26.15% of the budget of R3.32 billion;
- Additions submitted by departments amounted to R300.25 million;
- Submitted reductions amounted to R343.85 million; and
- The net adjustments amount to (R43.60) million.

The discussion below covers the sources of funding the adjusted capital budget.

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2022/23 PROPOSED CAPITAL BUDGET ADJUSTMENT - PER SOURCES OF FUNDING											
Source Of Finance	2022/23 Original Budget	2022/23 Act Exp Excl Comm as at 6 Jan 2023	% spent excl Comm	Additional	Reduction	2022/23 Net Proposed Adjustment	2022/23 Budget after Adjustment	Roll over Approved	Transfer from / to Opex	Net Adjustments	Budget after Adjustments
External Loans	741,982,950	206,658,350	27.85%	75,000,000	(130,500,000)	(55,500,000)	686,482,950			(55,500,000)	686,482,950
ISUPG	700,867,348	258,300,522	36.85%	21,200,000	(21,200,000)	-	700,867,348	7,044,989	4,200,000	11,244,989	712,112,337
NDPG	60,000,000	13,216,002	22.03%	-	(8,764,002)	(8,764,002)	51,235,998		250,000	(8,514,002)	51,485,998
Provincial Grant	12,000,000	4,162,248	34.69%			-	12,000,000			-	12,000,000
PTNG	260,000,000	52,911,519	20.35%			-	260,000,000		(20,000,000)	(20,000,000)	240,000,000
Revenue	277,890,798	39,044,536	14.05%	56,456,887	(85,069,888)	(28,613,001)	249,277,797			(28,613,001)	249,277,797
EHC SHRA				49,228,096		49,228,096	49,228,096			49,228,096	49,228,096
USDG	1,271,111,700	294,937,729	23.20%	78,325,384	(78,325,384)	-	1,271,111,700		8,550,000	8,550,000	1,279,661,700
<b>Total</b>	<b>3,323,852,796</b>	<b>869,230,905</b>	<b>26.15%</b>	<b>280,210,367</b>	<b>(323,859,274)</b>	<b>(43,648,907)</b>	<b>3,280,203,889</b>	<b>7,044,989</b>	<b>(7,000,000)</b>	<b>(43,603,918)</b>	<b>3,280,248,878</b>

The table above shows the sources of funding the capital budget. It shows, amongst others, that;

- External loans are reduced by R55.50 and own revenue by R28.61 million;
- Roll over of ISUPG of R7.0 million is appropriated; and
- Reallocation of grants between operating and capital budgets to ensure that the grants are optimally utilized.

Finally, the sources of funding the capital budget reduce from R3.32 billion to R3.28 billion.

**RECOMMENDATION**

1. **That** the report on the adjusted SDBIP, Capital and Operating Budgets for 2022/23 **BE NOTED**.
2. **That** the 2022/23 Budget **BE ADJUSTED** as allowed for in the MFMA Municipal Budget and Reporting Regulations as per the following mandatory tables as contained in **Annexure E** (NT schedules) of the report.
  - a. Table B1 – Adjustments Budget Summary;
  - b. Table B2 – Adjustments Budget Financial Performance Standard Classification;
  - c. Table B3 - Adjustments Budget Financial Performance Revenue and Expenditure by Municipal Vote;
  - d. Table B4 - Adjustments Budget Financial Performance Revenue and Expenditure;
  - e. Table B5 – Adjustments Capital Budget by Vote and Funding;
  - f. Table B6 – Adjustments Budget Financial Position;
  - g. Table B7 – Adjustments Budget Cash Flow;
  - h. Table B8 – Cash Backed Reserves and Accumulated Surplus Reconciliation;
  - i. Table B9 – Asset Management; and
  - j. Table B10 – Basic Service Delivery Measurement.
3. **That** the 2022/23 Operating Budget as reflected in **Annexure A BE ADJUSTED UPWARDS** with the amounts as reflected in the Annexure, as well as the adjustment of the Operating and Capital Grants as detailed in the report.

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- 4. That the 2022/23 Capital Budget of the City as reflected in Annexure B BE ADJUSTED DOWNWARD by an amount of R113.94 million and the consolidated Capital Budget of the City and its entities BE ADJUSTED DOWNWARD by a net amount of R43.60 million.**
- 5. That the adjusted Capital and Operating budget for the 2022/23 BE APPROVED.**