

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

2023.04.26

A-F (28-2023)

**SPECIAL ADJUSTMENTS TO THE BUDGET (OPERATING AND CAPITAL) FOR 2022/23
FINANCIAL YEAR DUE TO THE ISSUANCE BY NATIONAL TREASURY OF
GOVERNMENT GAZETTE 48327 DATED 29 MARCH 2023**

PURPOSE

To recommend that Council approves the **special adjustments** to the 2022/23 Capital and Operating Budget. This special adjustments are due to issuance by National Treasury of Government Gazette 48327 dated 29 March 2023 (**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..."

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

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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 17 February 2023, **Annexure B**, National Treasury informed the City of its intention to stop the Urban Settlements Development Grant (USDG), the Informal Settlements Upgrading Partnership Grant (ISUPG) and the Public Transport Network Grant (PTNG) 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 21 February 2023 (**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 48327 on the 29 March 2023 without responding to the representation letter.

The published gazette indicated that the USDG has been reduced by R100m, the ISUPG and the PTNG were however not reduced. In the same gazette, the Neighborhood Development Partnership Grant (NDPG) was increased. This increase was already included in the February 2023 adjustment budget as per the letter dated 10 October 2022. (**Annexure H**).

The Programme & Project Preparation Support Grant (PPPSG) was also included in the February 2023 adjustment budget as per the letter dated 01 November 2022. (**Annexure G**). This additional allocation was not included in the gazette 48327 dated 29 March 2023 and therefore is being amended downwards.

The Provincial Department of Sports, Recreation, Arts and Culture through a letter dated 25 March 2023, approved the redirection of funding between the programmes (both opex and capex) within the SRAC grant to ensure that the grant is optimally utilized. (**Annexure D**)

The table below shows the reductions/additions made for grants adjusted based on grants performance:

Grant Name	Original allocation (R)	Additional Allocation in February Adjustment		March Adjusted gazette	New Allocation	Grant component
		Mid-Year Adjustment (DoRA)	Roll over			
Neighbourhood Development Partnership Grant (NDPG)	60 000 000	(8 514 002)			51 485 998	Capex
Neighbourhood Development Partnership Grant (NDPG PEP)	58 470 000	(250 000)	5 288 483	58 470 000	121 978 483	Opex
Urban Settlements Development Grant (USDG)	1 282 202 000			(100 000 000)	1 182 202 000	Capex
Provincial Library Grant	12 000 000			3 000 000	15 000 000	Capex
Provincial Library Grant	8 750 000			(3 000 000)	5 750 000	Opex
Total	1 421 422 000	(8 764 002)	5 288 483	(41 530 000)	1 376 416 481	

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- **NDPG** – Capex and Opex adjustments were already included in the adjustment budget as per the attached allocation letter, therefore gazette no 48327 dated 29 March 2023 is a confirmation of the allocation letter dated 10 October 2022.
- **USDG** – An amount of R100m was reduced as per gazette no 48327 dated 29 March 2023
- **Provincial Grant** – Approved redirection of funds between Opex and Capex as per letter dated 25 March 2023.

The table below shows the reductions made for grants adjusted based on allocation letters from transferring department, which National treasury did not transfer the funds to the City:

Grant Name	Original allocation	Additional Allocation in February Adjustment		March Adjusted gazette	Final Adjusted Allocation	Grant component
		Mid Year Adjustment (DoRA)	Roll over			
Human Settlements Development Grant (HSDG)	126 235 000		121 451 556	(117 529 000)	130 157 556	Opex
Programme & Project Preparation Support Grant (PPPSG)	56 064 000	31 936 000		(31 936 000)	56 064 000	Opex
Total	182 299 000	31 936 000	121 451 556	(149 465 000)	186 221 556	

- **HSDG** – The original allocation was adjusted downwards as per gazette no 32 dated 1 February 2023 but the gazette was received after the item for adjustment was already submitted to Council for consideration.
- **PPPSG** – an allocation letter confirming R88m was received and was included in the adjustment budget, however NT refused to provide the allocation and gazette no 48327 dated 29 March 2023 did not include it.

Given the necessity to adjust the budget as a result 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:

- 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 48327 dated 29 March 2023

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Annexure B: National Treasury grant stopping letter

Annexure C: CoE representation on grant stopping

Annexure D: Redirection approval letter from Gauteng Department of Sport, Recreation Arts and Culture

Annexure E: Special adjustments to Operating Budget

Annexure F: Special adjustments to Capital Budget

Annexure G: PPPSG Proposed adjusted allocation

Annexure H: NDPG Proposed adjusted allocation letter

SECOND SPECIAL ADJUSTMENTS TO THE OPERATING BUDGET

Operating Revenue

The table below shows the **reduction** in the operating revenue from R50.6 billion to R50.4 billion, a decrease of R162.4 million. **Annexure E** shows the details of the adjustments.

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.

Description	2022/23 Special Adjustment Budget				
	Revised Budget	YearTD actual	% of YTD Actual	Proposed Adjustment	Budget after Special Adjustment
	R	R		R	R
Revenue By Source					
Property rates	8 231 352 036	5 818 703 627	70,7%	-	8 231 352 036
Service charges - electricity revenue	19 760 579 818	14 059 024 430	71,1%	-	19 760 579 818
Service charges - water revenue	6 191 505 528	4 433 131 534	71,6%	-	6 191 505 528
Service charges - sanitation revenue	2 898 639 109	2 424 562 690	83,6%	-	2 898 639 109
Service charges - refuse revenue	1 719 415 847	1 276 757 343	74,3%	-	1 719 415 847
Rental of facilities and equipment	133 858 854	103 210 910	77,1%	-	133 858 854
Interest earned - external investments	95 337 665	89 085 360	93,4%	-	95 337 665
Interest earned - outstanding debtors	1 180 374 355	1 079 269 342	91,4%	-	1 180 374 355
Fines, penalties and forfeits	817 243 638	95 281 135	11,7%	-	817 243 638
Licences and permits	324 758 486	255 804 505	78,8%	-	324 758 486
Transfers and subsidies	5 917 298 124	5 209 725 525	88,0%	(162 465 000)	5 754 833 124
Other revenue	3 368 529 054	3 047 001 443	90,5%	-	3 368 529 054
Total Revenue (excluding capital transfers and contributions)	50 638 892 514	37 891 557 843	74,8%	(162 465 000)	50 476 427 514

The proposed adjustment relate to the following grants:

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Name of Grant	March Adjusted gazette (Reduction / Additional)	Redirection between Opex & Capex (March)	Total Adjustments
Human Settlement Development Grant (HSDG)	(117 529 000)	-	(117 529 000)
Programme & Project Preparation Support Grant (PPPSG)	(31 936 000)	-	(31 936 000)
SRAC Provincial Grant	-	(3 000 000)	(3 000 000)
Urban Settlement Development Grant (USDG) for ERWAT	(10 000 000)	-	(10 000 000)
Total	(159 465 000)	(3 000 000)	(162 465 000)

Operating Expenditure

The table below shows that operating expenditure is adjusted from R50.3 billion to R50.1 billion.

Description	2022/23 Special Adjustment Budget				
	Revised Budget R	YearTD actual R	% of YTD Actual	Proposed Adjustment R	Budget after Special Adjustment R
Expenditure By Type					
Employee related costs	10 798 095 288	7 598 643 292	70,4%	42 132 512	10 840 227 800
Remuneration of councillors	150 854 782	109 920 866	72,9%		150 854 782
Debt impairment	5 703 780 642	4 304 376 173	75,5%		5 703 780 642
Depreciation & asset impairment	3 042 210 754	1 903 497 665	62,6%		3 042 210 754
Finance charges	1 474 922 883	660 270 178	44,8%		1 474 922 883
Bulk purchases - electricity	15 418 907 875	10 627 224 341	68,9%		15 418 907 875
Inventory consumed	6 148 998 524	4 341 216 309	70,6%	(42 830 998)	6 106 167 526
Contracted services	5 727 045 297	3 546 647 256	61,9%	(148 405 483)	5 578 639 814
Transfers and subsidies	597 419 665	384 129 129	64,3%	(83 929 000)	513 490 665
Other expenditure	1 276 656 804	815 508 296	63,9%	70 567 968	1 347 224 772
Total Expenditure	50 338 892 514	34 291 433 505	68,1%	(162 465 000)	50 176 427 514
Surplus/(Deficit)	300 000 000	3 600 124 338		-	300 000 000

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 R300 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

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

Special Adjusted Capital Budget per Department

Department	2022/23 Budget as at 31 March 2023	Actual Expenditure Incl Commitments as at 31 March 2023	% Spent incl comm	Amount to be Reduced (Reductions) (-)	2022/23 Budget after Special Adjustment
Chief Operating Officer	34 000 000	5 694 852	16,75%	(5 000 000)	29 000 000
City Planning	300 000	92 474	30,82%		300 000
Council General	29 000 000	3 845 656	13,26%		29 000 000
Disaster & Emergency Management Services	33 000 000	13 144 609	39,83%	(2 000 000)	31 000 000
Economic Development	25 250 000	2 758 387	10,92%		25 250 000
Ekurhuleni Housing Company (EHC)	50 541 584	5 540 973	10,96%		50 541 584
Ekurhuleni Metro Police Department	35 500 000	13 660 422	38,48%		35 500 000
Energy	594 733 106	476 329 462	80,09%	8 500 000	603 233 106
Environmental Resources & Waste Management	147 750 000	84 279 189	57,04%	(18 000 000)	129 750 000
ERWAT	112 670 444	66 766 190	59,26%	(10 000 000)	102 670 444
Executive Office	250 000	29 560	11,82%		250 000
Human Resources Management	50 000	-	0,00%		50 000
Human Settlements	555 330 987	339 145 649	61,07%		555 330 987
Information and Communication Technology	272 000 000	210 912 155	77,54%	62 578 212	334 578 000
Real Estate	148 636 190	25 668 852	17,27%	(62 578 212)	86 057 978
Roads and Stormwater	264 110 777	96 818 835	36,66%	(21 000 000)	243 110 777
Sport Recreation Arts and Culture	41 375 790	23 612 379	57,07%	500 000	41 875 790
Transport Planning & Provision	260 000 000	149 143 859	57,36%		260 000 000
Water and Sanitation	675 750 000	266 687 436	39,47%	(50 000 000)	625 750 000
Grand Total	3 280 248 878	1 784 130 938	54,39%	(97 000 000)	3 183 248 878

The effect of the special adjustments decreases capital budget from R3.28 billion to R3.18 billion, a net decrease of R97 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.

Sources of Finance

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Source of Finance	2022/23 Budget as at 31 March 2023	2022/23 Actual Exp incl Commitments as at 31 March 2023	% Spent incl comm	Proposed Amendments	2022/23 Budget after Special Adjustment
EHC SHRA GRANT	49 228 096	5 540 973	11,26%		49 228 096
External Loans	686 482 950	406 384 698	59,20%	56 000 000	742 482 950
Informal Settlement Upgrading Programme Grant (ISUPG)	712 112 337	437 037 953	61,37%	-	712 112 337
Neighborhood Development Partnership Grant (NDPG)	51 485 998	40 266 199	78,21%		51 485 998
SRAC Provincial Grant	12 000 000	11 304 550	94,20%	3 000 000	15 000 000
Public Transport Network Grant (PTNG)	240 000 000	139 945 012	58,31%		240 000 000
Revenue	249 277 797	137 477 730	55,15%	(56 000 000)	193 277 797
Urban Settlement Development Grant (USDG)	1 279 661 700	606 173 824	47,37%	(100 000 000)	1 179 661 700
Grand Total	3 280 248 878	1 784 130 938	54,39%	(97 000 000)	3 183 248 878

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. It shows, amongst others, that;

- USDG is reduced by R100 million;
- SRAC Provincial grant is increased by R3 million - Reallocation of grants between operating and capital budgets to ensure that the grants are optimally utilized.
- Revenue and External Loans – Refinancing of projects (R56m) to be in line with the originally approved External Loans.

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 2022/23 **BE NOTED**.
2. **That** the Special Adjusted Capital and Operating Budgets for 2022/23 **BE APPROVED**.