

ADJUSTMENT BUDGET FOR THE 2023/2024 FINANCIAL YEAR

(5/1/3 (2023/2024))

Cluster : Finance
Portfolio : Financial Management & Budgets

This is a report of the Budget Panel, emanating from meetings held during February 2024 with the last meeting held on the 26 February 2024

PURPOSE

The purpose of the report is to present the detailed Adjustment Budget for 2023/2024 to Council for approval.

INTRODUCTION

Section 28 of the Municipal Finance Management Act sets out the conditions for the tabling and adoption of an Adjustments Budget. The Section reads, in part:

“Municipal adjustments budgets

28. (1) *A municipality may revise an approved annual budget through an adjustments budget.*
- (2) *An adjustments budget -*
 - (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.*
- (3) *An adjustments budget must be in a prescribed form.*
- (4) *Only the mayor may table an adjustments budget in the municipal Council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.*
- (5) *When an adjustments budget is tabled, it must be accompanied by-*

- (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.*
- (6) *Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.*
- (7) *Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.”*

BACKGROUND

The Municipal Manager, in conjunction with the Executive Directors determined that an adjustment budget is required to address the short comings within the existing budget in terms of the MFMA section 72(3).

The budget office conducted, in consultation with the MM, the affordable levels of expenses for each line item. Revised figures were then presented in order to finalize the adjustment budget taking into consideration the current financial situation of the municipality.

The criteria utilized for compiling the adjustment budget were determined by the following factors:

1. The Adjustment Budget must be compiled in compliance to the MFMA requirements as set out in Section 28(1-7) as specify in the body of the report. This relates to expenditure and income estimate deviations which have been anticipated in the IDP but which have not materialized for motivated reasons and external circumstances;
2. The adjustment must be substantiated through alignment with Cluster’s SDBIP and the Council’s approved IDP;
3. The original approved budget process and guidelines must be used to compile the 2023/2024 adjustment budget and emphasis was placed that it is not a new budget;
4. Clusters were required to reprioritize within their approved operating and capital budget allocations in accordance with the cost containment report as approved by the accounting officer as well as to address unforeseen and unavoidable expenditure and to correct errors detected in the approved budget.

DISCUSSION

The budget approach was applied by taking the following principles into account:

- In line with Councils mid-term report;
- Clusters to eliminate all luxury and non-priority items;
- Programs to be performed in-house first, with no use of Consultants by all Clusters;
- Catering be stopped for all meetings inclusive of Council Meetings;
- Moratorium be placed on vacancies and attrition positions not to be filled, subject to Accounting Officer approval;

As per annexure "A" the original approved budget for 2023/2024 indicates a net operating deficit of R 14,368,397 with a revised amount reducing the deficit to R 13,583,620. The capital budget will however increase with R 700 000 to make provision for the Executive Mayor's vehicle. The amount on the capital budget need to be financed from own funding as determined by the GRAP principles and accounting standards.

During the compilation of the adjustment budget, various over and under expenditure and income deviations mainly in the employee related cost and general expenses category were found. The adjustment budget for the operating budget in relation to income were increase based on current income levels and forward realistic projections with an amount of R1,917,823. This increase is on interest receivable on the current bank accounts which attracts interest as well as Agency fees specifically at the Meyerton and Heidelberg centers. The expenditure category was increased by R1,133,046. These expenses relates to Audit fees payable to the Auditor General, Insurance fees payable for the year as well as Rates and Taxes payable to Emfuleni Local Municipality. The capital expenditure budget increase with an allocation of R700,000 to transport assets for the procurement of a vehicle for the Executive Mayor. This is done based on the current expenses related to the high cost of maintenance of the old Mercedes, while rental of vehicles became very costly to maintain and is not feasible.

RECONCILIATION SUMMARY ON A BALANCED BUDGET

	ADJUSTMENT BUDGET 2020/21
TOTAL EXPENDITURE	424,205,035
TOTAL REVENUE	(410,621,415)
(SURPLUS)/DEFICIT	13,853,620
Depreciation / Amortisation	(8,503,569)
Net cash (used) from operating activities	(5,350,051)

Council is closing with a deficit on the operating budget and it must be emphasized that cost containment measures must still apply to maintain our cash flow projections. The contributors towards the total

expenditure budget are attested to the employee related cost, contracted services, transfer and subsidies and other general expenses.

The propose solutions to the current scenario planning for Council are:

- Maintain a moratorium on non-critical vacancy and attrition post to generate a saving on the salary budget on a prioritization level subject to the approval of the Accounting Officer;
- Sourcing for additional revenue streams through the application of grant, subsidy, donor funding and miscellaneous income functions

The detail motivations of the above principles applied are substantiated in points 1 – 3 below:-

1. Operating Expenditure Budget

The Employee and Councillors remuneration budget has a positive impact in the adjustment budget with a decrease of R822,811. The limited impact, taken into consideration the 5.40% increase adjustment is due to resignations and the current moratorium on vacancies.

The other major operating adjustments in the various Clusters are illustrated as follows:

- a) Contracted Services
Contracted services show an increase of R306,035
- b) cost
There was a decrease in depreciation cost of R522,145 to life span adjustments on existing assets
- c) Other operational cost
Operational cost has increased with R2,184,117 which is due to the following main areas
 - ◆ Audit cost R345,709
 - ◆ Municipal Services R 509,408
 - ◆ Insurance premiums R433,083
 - ◆ Operating leases Transport Assets R186,257 and
 - ◆ Corporate and Municipal Activities R 184,629

2. Income Budget

The income budget has increased with an amount of R1,907,803 within interest on bank account receivable and agency fees receivable on the licensing function. This is based on the first 6 months of revenue already collected and received.

DC42 Sedibeng - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - 27/02/2024

Description	Ref	Budget Year 2023/24					Budget Year	Budget Year
		Original	Prior	Other	Total	Adjusted	Adjusted	Adjusted
		Budget	Adjusted	Adjusts.	Adjusts.	Budget	Budget	Budget
		3	8	9	10			
	1	A	A1	F	G	H		
Revenue By Source								
Exchange Revenue								
Service charges - Electricity	2	-	-	-	-	-	-	
Service charges - Water	2	-	-	-	-	-	-	
Service charges - Waste Water Management	2	-	-	-	-	-	-	
Service charges - Waste Management	2	-	-	-	-	-	-	
Sale of Goods and Rendering of Services		234,524	234,524	(10,038)	(10,038)	224,486	247,681	
Agency services		75,238,691	75,238,691	1,597,456	1,597,456	76,836,147	127,604,815	
Interest		-	-	-	-	-	-	
Interest earned from Receivables		-	-	-	-	-	-	
Interest earned from Current and Non Current Assets		2,324,500	2,324,500	1,236,844	1,236,844	3,561,344	2,463,970	
Dividends		-	-	-	-	-	-	
Rent on Land		-	-	-	-	-	-	
Rental from Fixed Assets		479,831	479,831	50,000	50,000	529,831	508,621	
Licence and permits		-	-	-	-	-	-	
Operational Revenue		4,765,046	4,765,046	64,794	64,794	4,829,840	5,050,948	
Non-Exchange Revenue								
Property rates	2	-	-	-	-	-	-	
Surcharges and Taxes		-	-	-	-	-	-	
Fines, penalties and forfeits		-	-	-	-	-	-	
Licences or permits		1,680,000	1,680,000	-	-	1,680,000	1,875,000	
Transfer and subsidies - Operational		323,574,000	323,574,000	(1,021,233)	(1,021,233)	322,552,767	336,994,000	
Interest		-	-	-	-	-	-	
Fuel Levy		-	-	-	-	-	-	
Operational Revenue		-	-	-	-	-	-	
Gains on disposal of Assets		40,000	40,000	-	-	40,000	42,400	
Other Gains		-	-	-	-	-	-	
Discontinued Operations		-	-	-	-	-	-	
Total Revenue (excluding capital transfers and contributions)		408,336,592	408,336,592	1,917,823	1,917,823	410,254,415	474,787,435	
Expenditure By Type								
Employee related costs		306,391,418	306,391,418	(354,603)	(354,603)	306,036,815	327,051,281	
Remuneration of councillors		14,737,996	14,737,996	(468,208)	(468,208)	14,269,788	15,844,052	
Bulk purchases - electricity		-	-	-	-	-	-	
Inventory consumed		4,054,024	4,713,896	(12,150)	(12,150)	4,701,746	4,297,266	
Debt impairment		-	-	-	-	-	-	
Depreciation and amortisation		9,025,714	9,025,714	(522,145)	(522,145)	8,503,569	9,128,281	
Interest		-	-	-	-	-	-	
Contracted services		42,699,603	41,889,681	306,035	306,035	42,195,716	51,243,911	
Transfers and subsidies		12,390,200	12,390,200	-	-	12,390,200	12,568,000	
Irrecoverable debts written off		-	-	-	-	-	-	
Operational costs		33,733,034	33,883,084	2,184,117	2,184,117	36,067,201	35,592,108	
Losses on disposal of Assets		40,000	40,000	-	-	40,000	42,400	
Other Losses		-	-	-	-	-	-	
Total Expenditure		423,071,989	423,071,989	1,133,046	1,133,046	424,205,035	455,767,299	
Surplus/(Deficit)		(14,735,397)	(14,735,397)	784,777	784,777	(13,950,620)	19,020,136	
Transfers and subsidies - capital (monetary allocations)		367,000	367,000	-	-	367,000	-	
Transfers and subsidies - capital (in-kind - all)		-	-	-	-	-	-	
Surplus/(Deficit) before taxation		(14,368,397)	(14,368,397)	784,777	784,777	(13,583,620)	19,020,136	
Income Tax		-	-	-	-	-	-	
Surplus/(Deficit) after taxation		(14,368,397)	(14,368,397)	784,777	784,777	(13,583,620)	19,020,136	
Share of Surplus/Deficit attributable to Joint Venture		-	-	-	-	-	-	
Share of Surplus/Deficit attributable to Minorities		-	-	-	-	-	-	
Surplus/(Deficit) attributable to municipality		(14,368,397)	(14,368,397)	784,777	784,777	(13,583,620)	19,020,136	
Share of Surplus/Deficit attributable to Associate		-	-	-	-	-	-	
Intercompany/Parent subsidiary transactions		-	-	-	-	-	-	
Surplus/ (Deficit) for the year	1	(14,368,397)	(14,368,397)	784,777	784,777	(13,583,620)	19,020,136	

3. Capital Expenditure Budget

The changes within the capital budget are as follows:

- Machinery and Equipment decrease with R 500,000;
- Vehicles has increased with R 700,000
- Computer Equipment has increase with R500,000 to make provision for a backup system currently not in place which poses a risk as identified by the Auditor General.

The adjustment budget for 2023/2024 is attached to the report as Annexure "A". as per the B schedule prepared in accordance with National Treasury reforms.

In conclusion in terms of the MFMA Chapter 4: Municipal Budgets section18 (1) and (2) provides for Council to close on a deficit budget as stipulated below:

"FUNDING OF EXPENDITURE":

(1) An annual budget may only be funded from -

- (a) Realistically anticipated revenues to be collected;*
- (b) Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
- (c) Borrowed funds, but not only for the capital budget referred to in section 17 (2).*

(2) Revenue projections in the budget must be realistic taking into account –

- (a) Projected revenue for the current year based on collection levels to date; and*
- (b) Actual revenue collected in previous financial years.*

RECOMMENDED:

1. THAT the 2023/2024 adjustment budget as annexed be hereby approved by the Council in the prescribed budget formats as received from National Treasury outlined below:

B Schedule - Annexure "A"

2. THAT the adjustment budget report be read in conjunction with the mid-term performance and financial reports presented to Council;

MR. CE STEYN
ACTING CHIEF FINANCIAL OFFICER

CLR JS MOCHAWA
MMC: FINANCE

DATE

DATE
