

ADJUSTMENT BUDGET 2023/24 FY**1. STRATEGIC TRUST**

Sound Financial Management.

2. OBJECTIVE

To request council to approve the adjusted budget.

3. SUMMARY**(a) Introduction**

This item is tabled to council in terms of section 28(2) of the Municipal Finance Management Act which permits the municipality to:

1. adjust the revenue and expenditure estimates downwards if there is material under collection of revenue during the current year;
2. appropriate additional revenue that has become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
3. authorize the utilization of projected savings in one vote towards spending in another vote; and
4. may correct any errors in the annual budget;

4. FINANCIAL IMPLICATIONS

The approved budgeted revenue increases by **26%** from **R 2,031,103,000** to **R 2,554,864,522** with Operational Expenditure budgeted at **R 1,850,784,539.16** and Capital Expenditure at **R 704,079,983.51**. Table 1 below shows a summary of budget movements for the last two financial years.

TABLE 1: SUMMARY OF APPROVED BUDGETS FOR 2022/23 FY AND 2023/24 FY

COMPARISON OF FINANCIAL YEARS BUDGET				
	2022/23 FINAL BUDGET	2023/24 ORIGINAL BUDGET	2023/24 ADJUSTED BUDGET	% INCREASE / DECREASE
OPEX	R 1 435 592	R 1 279 621	R 1 850 784	44.64%
CAPEX	R 789 191	R 751 482	R 704 080	-6.31%
TOTAL BUDGET	R 2 224 783	R 2 031 103	R 2 554 864	25.79%
Own Revenue	R 741 769	R 401 929	R 920 278	128.97%
Grants	R 1 483 014	R 1 629 174	R 1 634 586	0.33%
TOTAL BUDGET	R 2 224 783	R 2 031 103	R 2 554 864	25.79%

Find attached annexures for referencing:

Annexure A: OPERATION EXPENDITURE BUDGET

Annexure B: CAPITAL EXPENDITURE

4.1 REVENUE AND EXPENDITURE

- The proposed revenue adjustment is as follows:

Description	Budget year 2023/24			
	Budget	Mid Term Revenue	Adjustment Budget	% Increase
Revenue By Source				
Property rates	250 631	178 414	250 631	0%
Service charges - water revenue	75 733	51 465	110 000	45%
Service charges - sanitation revenue	4 868	2 198	4 868	0%
Service charges - refuse revenue	10 144	4 810	10 144	0%
Rental of facilities and equipment	1 082	566	1 082	0%
Interest earned - external investments	19 160	13 042	19 160	0%
Interest earned - outstanding debtors	12 299	20 389	180 000	1364%
Fines, penalties and forfeits	2 000	2 046	4 999	150%
Licences and permits	5 245	172	250	-95%
Agency services	11 060	7 500	15 000	36%
Transfers and subsidies	1 629 374	1 245 800	1 634 586	0%
Other revenue	9 509	4 267	324 146	3309%
Total Revenue (Including capital transfers)	2 031 103	1 530 667	2 554 865	26%

NOTES:

The mid-year budget and performance assessment, considering audited revenue and grants indicated that the revenue budget should be adjusted accordingly.

An assessment of the income budget of 2023/2024 has identified an increase of 26% from R 2,031 billion to R2.553 billion. The increase results from an increase of R35m in water service charges based on a comparison with audited prior year figures while a similar analysis on interest on outstanding debtors indicates an estimated upward adjustment of R168m is required. An assessment on Fines and penalties indicates that the original budget was understated by R2m, while the budget for licences and permits was overestimated by R5m.

Transfers and subsidies, which are grants received from national treasury was adjusted by net adjustment of just R5m. An amount of R 30.2 was reduced from MIG projects as a result of budget cuts by the treasury. INEP grant used for electrification is cut by R3m while RBIG allocation was also reduced by R 10m. The adjustment results in identified projects amounts being adjusted downwards.

4.2 OPERATIONAL EXPENDITURE

- Proposed Operational Expenditure adjustments are as follows :

Description	Budget year 2023/24			
	Budget	Mid Term Expenditure	Adjustment Budget	% Increase
Expenditure By Type				
Employee related costs	600 453	346 790	660 573	10%
Remuneration of councillors	29 411	18 114	29 411	0%
Debt impairment	100 557	190 000	390 557	288%
Depreciation & asset impairment	115 024	74 730	175 024	52%
Finance charges	770	132	10 000	1199%
Other materials	31 323	10 923	37 487	20%
Contracted services	252 516	153 959	280 076	11%
Transfers and subsidies	2 319	807	28 496	1129%
Other expenditure	147 249	123 915	239 161	62%
Total Expenditure	1 279 621	919 371	1 850 785	45%

NOTES:

The mid-year budget assessment on operational expenditure indicated serious shortfalls across all departments.

An assessment of **employee related costs** which includes the salaries of employees, and all the contributions such as Medical Aid, Housing, Pensions, and other related deductions of R60m before consideration of new recruitment. There was a request to provide additional budget for hiring of new recruits, however, the municipality does not have sufficient funds to provide the budget. Any recruitment will henceforth be delayed to the next financial year.

Councillor remuneration which includes salaries for all councillors, and all the contributions such as Medical Aid, Housing, Pensions, and other related deductions is deemed sufficient and no adjustment is required for this line item.

Finance charges includes interest charges from our creditors and interest on provisions was underestimated by R9.2m. The original budget did not take into account the interest on long service awards and landfill provision and hence an upwards adjustment of R9.2m is required.

Debt impairment is the estimated charge for provision that certain debtors will not pay the amounts due to the Municipality. The midterm assessment indicated that the original budget has a shortfall of R290m.

Depreciation is the charge incurred for usage of assets over a period of time. The midterm assessment indicated that an additional provision amounting to R60m is required to fully account for the depreciation at year end.

Contracted services, other materials and other expenditure include services contracted by the municipality such as security services, legal fees, consumables, catering, leases, repairs and

maintenance, consulting services, economic development, planning and environment programmes, and social cohesion programmes and activities.

Overspending on expenditure for these line items coupled with appointments of service providers for services with no budget necessitate that additional budget provision be made for these expenditures.

The assessment of the votes indicates that adjustments follows:

- **Technical Services:** The department has overspent on their expenditure line items by R62 m comprising mostly of water and sewer related maintenance amounting to R25m, R9.6m on electrical maintenance and R3.8m on basic sanitation and R20m on water chemicals. While the electricity and plumbing materials had not been overspent, over 75% of the allocated budgets had been spent necessitating an upward adjustment of R35m and R1,7m respectively. The total upwards adjustment amounting to R113m is required for these items which is partially funded with R34m from within the technical operational votes and R11m from BTO votes. The balance is funded from savings. R15m which was budgeted for in capital expenditure for electrification funded by INEP will also be transferred to operational votes taking the total upwards adjustment for technical services to R128m. A request of R20m for implementation of water demand management plan was not granted due to affordability.
- The total upwards adjustment amounting to R14,2m is required to fund EDPE activities for which R4.4m was made available from within the EDPE votes. A budget for a project of numbering of households was requested, however, the budget was not appropriated due to affordability. Additional budget was provided for the following activities to be conducted in the current year:
 - ❖ Investment Summit,
 - ❖ Women in Business programme,
 - ❖ Cleaning Campaigns including cleaning of cemeteries, parks, and community dumping sites and tools required to conduct the cleaning,
 - ❖ Purchase of skip and 85-liter bins,
 - ❖ Support for agricultural Cooperatives,
 - ❖ Tourism awareness campaigns and programmes, and
 - ❖ Establishment of a nursery for indigenous trees.
- **Corporate Services:** An upward adjustment of R17m which was incurred by corporate services consisting of expenditure of R5m on protective clothing, which was not budgeted for, expenditure of R1,2m on conferences and workshops which was not budgeted for and SALGA membership fee of R7m which was budgeted for in finance votes. It was also noted that the budget for fuel has been depleted which requires an upward adjustment of R6m. An upwards adjustment of R8m for internet and connectivity was requested, however, only R4m was provided in the adjustment budget.

The biggest shortfall in Corporate Services comes from salaries. The Municipality paid a total of R631m in Salaries in the 2022/23 FY, however, the budget for current year is only R600m. Factoring in a 5.4% increase take the total salary budget required for 2023/24 FY to R660m. An upward adjustment of R60m is henceforth required. It must be noted that this figure does not consider any planned new recruitments and any appointments at this stage will require additional funds which are not currently available. It is henceforth recommended that any planned recruitments be delayed to the next financial year as no budget has been provided for new recruitments.
- **Community Services:** An budget of R600 000 has been provided for sports activity, R3m for bursaries to community members, R100 000.00 to kickstart and Driving License programmes, R300 000.00 for Miss Bushbuckridge, R700 000.00 for activities related to persons with disabilities and R500 000.00 towards the fight against GBVF, Junior Council and Youth Development and Capacity building activities.
- **Municipal Manager:** The budget for internal audit was depleted which necessitated an additional budget of R2m to continue with the implementation of the Internal Audit plan.

- BTO: The commitment of R5m to Ehlanzeni district for an electronic filing system which was not budgeted for requires an additional R5m in upward adjustment to licence fees. R1m has been allocated for Revenue Indaba and implementation of the activities in revenue enhancement strategy, while an amount of R5m has been provided for activities related to Clean Audit 2024.

Transfers and subsidies comprise of R15m in electrification projects, additional R3m in community bursaries and R9m in sanitation projects. The increase is due to the fact that these items were misallocated to capital projects and contracted services respectively and have been accordingly relocated to correct classifications.

4.3 ADJUSTMENTS TO GRANTS RECEIVED IN TERMS OF DORA:

Description	2023/24 FY	Adjustments	2023/24 FY
Municipal Infrastructure Grant	451,183,000	(30,176,000)	421,007,000.00
Water Service Infrastructure Grant	50,000,000		50,000,000.00
Expanded Public Works Programme Incentive Grant	3,243,000	(181,000)	3,062,000.00
Financial Management Grant	2,650,000		2,650,000.00
Equitable ShareS Grant	1,054,098,000		1,054,098,000.00
INEP	18,000,000	(3,000,000)	15,000,000.00
INEP Unspent		1,682,579	1,682,579.00
WSIG Unspent		3,486,632	3,486,632.00
Neighbourhood Development Grant unspent		499,966	499,966.00
Municipal Disaster Grants		43,100,000	43,100,000.00
RBIG capital	40,000,000	(10,000,000)	30,000,000.00
Neighbourhood Development Partnership Grant (Capital)	10,000,000		10,000,000.00
	1,629,174,000.00	5,412,177.00	1,634,586,177.00

NOTES

Transfers and subsidies, which are grants received from national treasury was adjusted by net adjustment of R5.4m. An amount of R 30.2 was reduced from MIG projects as a result of budget cuts by the treasury. INEP grant used for electrification is cut by R3m while RBIG allocation was also reduced by R 10m. The EPWP grant is also being adjusted downwards by R181 000.00. Applications for various unspent conditional grants that were approved during the first quarter are also brought appropriated in the budget.

4.4 CAPITAL EXPENDITURE ADJUSTMENT

During the mid-year budget and performance assessment process, it was identified that the approved capital budget had to be adjusted to make necessary provision to various projects which were appointed without a budget to accelerate progress on the priorities identified amounting to R62.8m. Additional budget amounting to 18m is appropriated for generators, R400 000.00 for purchase of a public participation bakkie, R2m for refurbishment of Acornhoek library, R4m for fencing of Marite WTW and Dwarsloop satellite office and R5m for purchase of two compactor trucks.

The shortages of funds in the fiscus which were announced by the Minister of finance during the budget speech further resulted in cuts to capital grants allocated to the Municipality. The fiscus reductions necessitates a downwards adjustment of R 30.2 on MIG projects, R3m on electrification projects funded by INEP grant, and R10 on projects funded by RBIG.

A disaster grant amounting to R42 million was allocated to the municipality for alleviation of the damages to our roads network after the budget was approved. The grant was immediately put to use with 118 culvert bridges commissioned by September 2023 committing the entire R42m. An adjustment is henceforth required to appropriate the R42m.

4.5 ADJUSTED BUDGET FUNDING

The Adjusted Budget will be funded as follows:

Cash Resources Analysis

Grants allocated ito DORA	1 634 586 177.00
Expected VAT Refunds	120 000 000.00
Expected receipts from customers	223 000 000.00
Insurance Refund	3 000 000.00
Total Cash available to fund the budget	1 980 586 177.00
Opex	1 850 784 539.16
Less non cash depreciation	-175 024 000.00
Less non cash Impairment	-390 557 000.00
Less non cash finance cost	-9 500 000.00
Total Opex requiring cash resources	1 275 703 539.16
Total Capex requiring cash resources	704 079 983.51
Cash required to cover CAPEX and OPEX	1 979 783 522.67
Cashflow Surplus	802 654.33

5. LEGAL IMPLICATION

Compliance with Section 28 of the MFMA.

6. IMPLEMENTATION PLAN

The 2022/23 Adjusted budget will be implemented with effect from the date of council approval.

7. COMMENTS OF THE ACCOUNTING OFFICER

Strict budgetary controls are required to ensure that the municipality does not incur unauthorised expenditure at year end. No commitment or expenditure is to take place without a budget. Efforts to improve revenue collections are ongoing to ensure that more funds are available to fund activities that have been delayed to next financial year.

8. RECOMMENDATIONS

It is recommended that:

- a) Council approves the adjusted budget for 2022/23 for implementation.
- b) The Municipal Manager submits the adjusted budget to Provincial and National Treasury in hard copy and electronic copy.

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