



# **2nd Adjustment Budget 2022/2023**

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## 1.1 MAYOR'S REPORT

The Adjustment Budget that I present to you is in terms of section 28 of the Municipal Finance Management Act, which requires that the municipalities should revise their annual budgets where there are additional funds that become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for.

The following is the table depicting the high level overview of the 2nd adjustment budget for 2022/23

R thousands	Original Budget 2022/23	Special Adjustment Budget 2022/23	2 <sup>nd</sup> Adjustment Budget 2022/2023
Operating Revenue (Excl. capital transfers)	228 855 182	228 855 182	233 123 328
Operating Expenditure	255 338 798	260 148 199	276 081 766
<b>Surplus or (Deficit) before capital transfers</b>	<b>(26 483 616)</b>	<b>(31 293 017)</b>	<b>(42 958 438)</b>
Capital Transfers	31 701 000	34 781 171	34 781 171
<b>Surplus or (Deficit) after capital transfers</b>	<b>5 217 384</b>	<b>3 488 154</b>	<b>(8 177 267)</b>

The following factors were taken into consideration when preparing the adjustment budget:

- The additional grant received from LGSeta during the financial year.
- The electricity meter project that is being implemented which will generate additional revenue.
- The new rental agreements entered into by the municipality.
- Reduction of expenditure that will not impact on service delivery.
- The slight improvement on other revenue streams.
- The retentions on MIG projects.

The 2<sup>nd</sup> adjustment budget that is tabled before council is not fully funded due to the projected cash that cannot cover the commitments of creditors at year end. The financial recovery plan with funding plan was developed with an objective to improve the financial situation of Amahlathi, the plan is continuously monitored and reviewed. In addition to this there are also other strategies that the municipality is implementing to better the financial situation.

## 1.2 ADJUSTMENT BUDGET RELATED RESOLUTIONS

Below are the resolutions that must be approved by council with 2022/23 special adjustment budget.

- a. That the special adjustment budget for 2022/2023 **be approved** as set out in the following budget tables:-
  - *Table B1 Budget Summary*
  - *Table B2 Budgeted Financial Performance by Standard Classification*
  - *Table B3 Budgeted Financial Performance by Vote*
  - *Table B4 Budgeted Financial Performance – Revenue by Source and Expenditure by type*
  - *Table B5 Budgeted Capital*
  - *Table B6 Budgeted Financial Position*
  - *Table B7 Budgeted Cash Flows*
  - *Table B8 Budgeted Backed Reserves and Accumulated Surplus Reconciliation*
  - *Table B9 Asset management*
  - *Table B10 Basic Service Delivery Measurement*
- b. That the 2<sup>nd</sup> adjustment budget **be approved.**
- c. That the funding plan **be approved.**

## 1.3 EXECUTIVE SUMMARY

In terms of section 28(2) (b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) read together with sub-regulation 23 of the Municipal Budget and Reporting Regulations, municipalities must adjust their MTREF

budgets to account for the additional revenues that become available over and above those anticipated in the annual budget. An adjustment budget:-

- Must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year.
- 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.
- May authorise the utilisation of projected savings in one vote towards spending under another vote.
- May correct any errors in the annual budget; and
- May provide for any other expenditure within a prescribed framework

The revenue of the municipality continues to be under pressure due to various factors; which include the culture on non-payment by debtors; the slow economic growth rate and unemployment rate which was also exacerbated by the Covid-19 pandemic. Having said this; there are various revenue generating strategies that are being implemented by the municipality. The progress on implementation of the revenue enhancement strategy is being reported on a quarterly basis. The operating revenue has been adjusted upwards by R4m from R228m to R233m. The operating expenditure has been adjusted upwards by R15m from R260m to R276m. The material adjustments in operating expenditure is due to increase in consumption in bulk purchases; legal expenses; audit fees; fuel and vehicle repairs. The capital expenditure has been reduced by R2.9m from R44m to R41m. The material reduction is in Surfacing of Carthcart Streets which is partly funded by MIG funds.

## 1.4 OPERATING REVENUE FRAMEWORK

The municipality is implementing a revenue enhancement strategy with an objective to improve financial viability. In order to meet the objective of the strategy a revenue enhancement committee monitors and evaluates the implementation of the strategy. The committee ensure that there is monitoring of the implementation of the revenue enhancement strategy and full implementation of the credit control policy and debt collection policy.

Below is the table reflecting the summary of adjusted budget revenue by source.

**Table: 1 (Revenue by source)**

EC124 Amahlathi - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -												
Description	Ref	Budget Year 2022/23									Budget Year +1 2023/24	Budget Year +2 2024/25
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		3	4	5	6	7	8	9	10			
R thousands	1	A	A1	B	C	D	E	F	G	H		
<b>Revenue By Source</b>												
Property rates	2	23 785	23 785	—	—	—	—	—	—	23 785	24 831	25 949
Service charges - electricity revenue	2	41 147	41 147	—	—	—	—	400	400	41 547	43 154	45 096
Service charges - water revenue	2	—	—	—	—	—	—	—	—	—	—	—
Service charges - sanitation revenue	2	—	—	—	—	—	—	—	—	—	—	—
Service charges - refuse revenue	2	13 141	13 141	—	—	—	—	—	—	13 141	13 719	14 336
Rental of facilities and equipment		100	100					191	191	291	303	317
Interest earned - external investments		1 040	1 040					15	15	1 055	1 101	1 151
Interest earned - outstanding debtors		8 646	8 646					1 648	1 648	10 294	10 747	11 231
Dividends received		—	—					—	—	—	—	—
Fines, penalties and forfeits		15	15					11	11	26	27	28
Licences and permits		2 429	2 429					—	—	2 429	2 536	2 650
Agency services		1 829	1 829					—	—	1 829	1 909	1 995
Transfers and subsidies		130 728	130 728					261	261	130 989	135 082	141 930
Other revenue	2	5 996	5 996	—	—	—	—	1 742	1 742	7 738	6 513	6 806
Gains		—	—					—	—	—	—	—
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>228 855</b>	<b>228 855</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4 268</b>	<b>4 268</b>	<b>233 123</b>	<b>239 923</b>	<b>251 489</b>

**The material areas of adjustment under revenue are as follows:-**

- Interest on debtors was adjusted upwards by R1.6m due to culture of non-payment; unemployment rate that is exacerbated by the Covid-19 pandemic and slow economic growth rate.
- Other revenue was adjusted upwards by R1.7m due to insurance refunds received during the current year.
- Grants and subsidies was adjusted upwards by R261 thousand due to LGSeta Grant and Human Settlements Grants received.
- Rental of facilities and equipment was adjusted upwards by R191 thousand due to new lease agreements entered into.
- Service Charges have been adjusted upwards by R400 thousand due to the electricity meter project that is being rolled out.

Operational grants constitutes 56% of operating revenue; property rates and service charges 34% and other revenue 10%. This is an indication that the municipality is still heavily dependent on grants. Below is the graph depicting the split of total operating revenue.



## 1.5 OPERATING EXPENDITURE FRAMEWORK

The table below depicts the high level summary of adjusted budget classified per main type of operating expenditure.

EC124 Amahlathi - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) -												
Description	Ref	Budget Year 2022/23									Budget Year +1 2023/24	Budget Year +2 2024/25
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
			3	4	5	6	7	8	9	10		
R thousands	1	A	A1	B	C	D	E	F	G	H		
<b>Expenditure By Type</b>												
Employee related costs		106 959	110 264	–	–	–	–	–	–	110 264	111 676	115 212
Remuneration of councillors		11 996	13 501					–	–	13 501	14 095	14 729
Debt impairment		27 000	27 000					–	–	27 000	28 188	29 456
Depreciation & asset impairment		26 000	26 000	–	–	–	–	–	–	26 000	26 000	26 000
Finance charges		4 000	4 000					500	500	4 500	4 176	4 364
Bulk purchases - electricity		38 070	38 070	–	–	–	–	8 853	8 853	46 923	48 988	51 193
Inventory consumed		267	267	–	–	–	–	1	1	269	273	285
Contracted services		19 154	19 154	–	–	–	–	2 407	2 407	21 561	20 549	21 505
Transfers and subsidies		–	–					–	–	–	–	–
Other expenditure		21 891	21 891	–	–	–	–	4 172	4 172	26 064	22 881	23 911
Losses		–	–					–	–	–	–	–
<b>Total Expenditure</b>		<b>255 339</b>	<b>260 148</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>15 934</b>	<b>15 934</b>	<b>276 082</b>	<b>276 827</b>	<b>286 656</b>

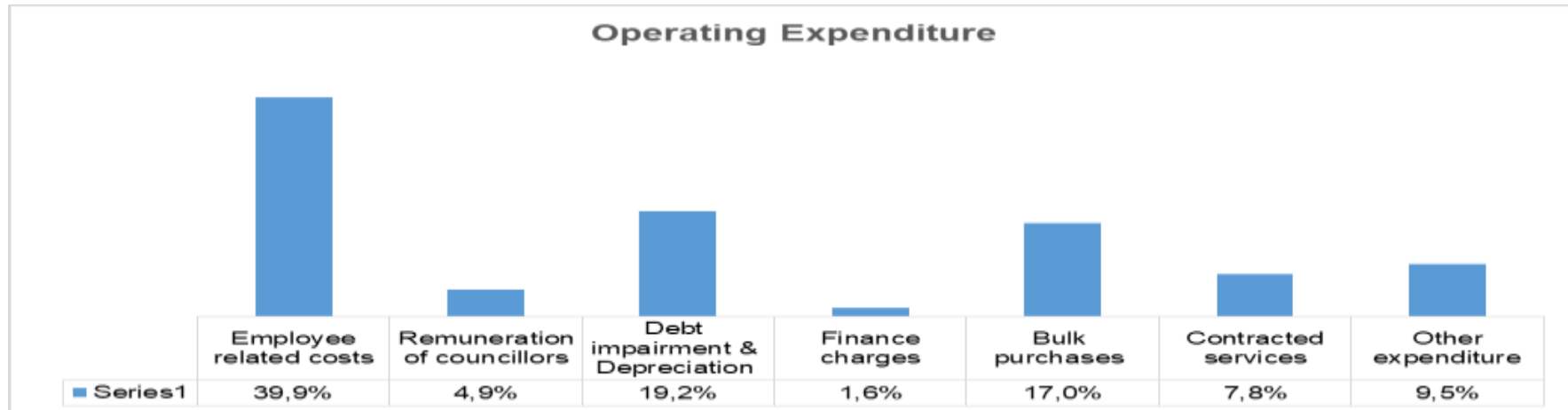
The material areas of adjustment under expenditure are as follows:-

- Finance Charges are adjusted upwards by R500 thousand due to late payment of creditors.



- Bulk purchases are adjusted upwards by R8.8m due to increase in consumption.
- Contracted Services are adjusted upwards by R2.4m and the material adjustments are audit fees; legal expenses and maintenance of vehicles.
- Other expenditure was adjusted upwards by R 4.1m and the material adjustments are SARS penalties; fuel; internet connection; travel and hire costs.

Below is the graph depicting the split of total operating expenditure.



## 1.6 CAPITAL EXPENDITURE

EC124 Amahlathi - Table B5 Adjustments Capital Expenditure Budget by vote and funding -

Description	Ref	Budget Year 2022/23									Budget Year +1 2023/24	Budget Year +2 2024/25
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		5	6	7	8	9	10	11	12			
R thousands		A	A1	B	C	D	E	F	G	H		
<b>Single-year expenditure to be adjusted</b>	2											
Vote 1 - Executive & Council		–	1 400	–	–	–	–	–	–	1 400	–	–
Vote 2 - Finance and Admin		300	300	–	–	–	–	570	570	870	–	–
Vote 3 - Internal Audit		–	–	–	–	–	–	–	–	–	–	–
Vote 4 - Community and Social Services		1 000	1 000	–	–	–	–	500	500	1 500	–	–
Vote 5 - Sport & Recreation		–	–	–	–	–	–	–	–	–	–	–
Vote 6 - Public Safety		–	–	–	–	–	–	–	–	–	–	–
Vote 7 - Housing		–	–	–	–	–	–	–	–	–	–	–
Vote 8 - Planning & Development		36 701	36 701	–	–	–	–	(4 000)	(4 000)	32 701	31 331	32 623
Vote 9 - Road Transport		–	–	–	–	–	–	–	–	–	–	–
Vote 10 - Energy Sources		1 790	1 790	–	–	–	–	–	–	1 790	10 000	10 449
Vote 11 - Waste Management		–	3 080	–	–	–	–	–	–	3 080	–	–
Vote 12 - Environmental Protection		–	–	–	–	–	–	–	–	–	–	–
Vote 13 - [NAME OF VOTE 13]		–	–	–	–	–	–	–	–	–	–	–
Vote 14 - [NAME OF VOTE 14]		–	–	–	–	–	–	–	–	–	–	–
Vote 15 - [NAME OF VOTE 15]		–	–	–	–	–	–	–	–	–	–	–
<b>Capital single-year expenditure sub-total</b>		<b>39 791</b>	<b>44 271</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2 930)</b>	<b>(2 930)</b>	<b>41 341</b>	<b>41 331</b>	<b>43 072</b>
<b>Total Capital Expenditure - Vote</b>		<b>39 791</b>	<b>44 271</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2 930)</b>	<b>(2 930)</b>	<b>41 341</b>	<b>41 331</b>	<b>43 072</b>

The material areas of adjustment in capital expenditure are as follows:

- Surfacing of carthcart streets have been adjusted downwards by R4m as the project is partly funded by MIG funds.
- Buildings have been adjusted upwards by R500 thousand due to new offices.
- Computers have been adjusted upwards by R470 thousand.

## EXPENDITURE ON GRANTS

The grants allocations are detailed below:

EC124 Amahlathi - Supporting Table SB8 Adjustments Budget - expenditure on transfers and grant programme -									
Description	Ref	Budget Year 2022/23						Budget Year +1 2023/24	Budget Year +2 2024/25
		Original Budget	Prior Adjusted	Multi-year capital	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget
		A	2 A1	3 B	4 C	5 D	6 E	7 F	
<b>R thousands</b>									
<b>EXPENDITURE ON TRANSFERS AND GRANT PROGRAMME</b>	<b>1</b>								
<b>Operating expenditure of Transfers and Grants</b>									
<b>National Government:</b>		<b>128 755</b>	<b>128 755</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>128 755</b>	<b>135 082</b>
Local Government Equitable Share		124 987	124 987				–	124 987	131 233
Finance Management		2 200	2 200				–	2 200	2 200
Municipal Systems Improvement							–	–	
EPWP Incentive		1 568	1 568				–	1 568	–
<b>Provincial Government:</b>		<b>1 973</b>	<b>1 973</b>	<b>–</b>	<b>–</b>	<b>261</b>	<b>261</b>	<b>2 234</b>	<b>–</b>
Sport and Recreation		1 200	1 200				–	1 200	
Capacity						99	99	99	
Seta		773	773			162	162	935	
<b>Total operating expenditure of Transfers and Grants:</b>		<b>130 728</b>	<b>130 728</b>	<b>–</b>	<b>–</b>	<b>261</b>	<b>261</b>	<b>130 989</b>	<b>135 082</b>
<b>Capital expenditure of Transfers and Grants</b>									
<b>National Government:</b>		<b>31 701</b>	<b>31 701</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>31 701</b>	<b>41 331</b>
Municipal Infrastructure Grant (MIG)		31 701	31 701				–	31 701	31 331
INEP Grant							–	–	10 000
<b>Provincial Government:</b>		<b>–</b>	<b>3 080</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3 080</b>	<b>–</b>
Waste Grant R6m		–	3 080				–	3 080	
<b>Total capital expenditure of Transfers and Grants</b>		<b>31 701</b>	<b>34 781</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>34 781</b>	<b>41 331</b>
<b>Total capital expenditure of Transfers and Grants</b>		<b>162 429</b>	<b>165 509</b>	<b>–</b>	<b>–</b>	<b>261</b>	<b>261</b>	<b>165 770</b>	<b>176 413</b>
<b>Total capital expenditure of Transfers and Grants</b>		<b>162 429</b>	<b>165 509</b>	<b>–</b>	<b>–</b>	<b>261</b>	<b>261</b>	<b>165 770</b>	<b>185 002</b>

**1.7 ADJUSTMENT MTREF BUDGET TABLES**

The Adjusted budget tables are attached.

**1.8 QUALITY CERTIFICATE**

The quality Certificate is attached.

**1.9 FUNDING PLAN**

The funding plan is attached.