

## **ITEM**

### **NORMAL ADJUSTMENT BUDGET 2023/24**

**5/1/1-2023/24**

**EXCO: FEBRUARY 2024**

#### **REPORT OF THE CHAIRPERSON OF PORTFOLIO COMMITTEE FOR GOVERNANCE, ADMINISTRATION; BUDGET AND TREASURY.**

### **1. PURPOSE**

The purpose of this report is to request Council to approve the 2023/2024 Adjustment Budget.

### **2. LEGAL REQUIREMENTS**

In terms of Section 28 of the MFMA, a Municipality may revise an Annual approved Budget through an Adjustment Budget. An Adjustment 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, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the Municipality.
- (d) May authorize the utilization of projected Savings in one vote towards spending under another vote.
- (e) May authorize 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 rollovers 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. BACKGROUND.**

The Municipality has adjusted 2023/24 to address the impact of Economic constraints , ongoing Load shedding and a hike in electricity charges that has resulted in Consumers switching to other sources of energy which includes solar and Gas.

The Scaling down of the Economic activity in Lephalale as result of the completion of Medupi Project, short coming of Covid has resulted in the closing of shops, migration of people out of town and increasing number of Vacant houses in Lephalale.

The operating Revenue reduced by R5.4 Million from R789,6 Million to R784,2 Million as a result of the above

The operating expenditure has reduced by R5,4Million from R787,9 Million to R782,5Million, due to implementation of Cost containment strategies.

The movement between Operating Revenue and the Operating Expenditure has the same net operating surplus of R1.7 Million.

The capital expenditure has been revised from R106 Million to R297 Million to include approved rollovers MIG – R15,8 Million and Own Funding .Additional funding of R168 Million was approved by DWS (Schedule 6b) after the Final budget was approved.The own funding capital budget has been adjusted downwards by R28 Million and repurposed to 2024/25 to prioritise Service delivery and low collection of Revenue.

## 1. REVENUE

The Operating Revenue movement is as follows:

Description R'0	Budget Year 2023/24		
	Original Budget	Adjusted Budget	Variance
<b>Revenue</b>			
<b>Exchange Revenue</b>			
Service charges - Electricity	251,922,566	241,922,566	10,000,000
Service charges - Water	68,417,530	68,417,530	-
Service charges - Waste Water Manag	27,221,345	27,221,345	-
Service charges - Waste managemen	21,755,548	21,755,548	-
Sale of Goods and Rendering of Ser	1,721,740	1,721,740	-
Agency services	9,173,295	9,173,295	-
Interest earned from Receivables	50,149,409	35,563,069	14,586,340
Interest from Current & N/ Current Assets	5,000,000	9,000,000	(4,000,000)
Rental from Fixed Assets	346,859	746,859	(400,000)
Operational Revenue	2,491,065	2,491,065	-
<b>Non-Exchange Revenue</b>			-
Property rates	118,974,942	118,974,942	-
Fines, penalties and forfeits	765,715	965,715	(200,000)
Transfers and subsidies - Operations	231,695,000	231,695,000	-
Interest	-	14,586,340	(14,586,340)
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>789,635,014</b>	<b>784,235,014</b>	<b>5,400,000</b>

**The decrease in Service Charge - Electricity** - mainly due to low consumption of the services from the consumers a result load shedding and consumers switching to complementary services gas and solar.

**Increase on interest earned from Current and non-Current Assets** is due to interest on income from short term investments on grant funds received projects and service charges.

**Interest earned on exchange and non – exchange transactions Revenue** is mainly due alignment to updated Mscoa regulations and GRAP standards for fair presentation of the Financial statements.

**Rental of Fixed Assets** - LLM Residential properties in town are fully occupied by Senior Management.

**Fines and penalties** – Due additional resources brought into the Department. Enforcement of traffic by laws ,follow up on issued summons and impoundment of unroadworthy motor vehicles.

## 2. EXPENDITURE

The operating expenditure has reduced by R5,4Million from R787,9 Million to R782,5 Million due to implementation of cost containment, alignment to expenditure trends for Overtime ,Inventory consumed ,contracted services and operational costs.

**The movement in expenditure is due to the following items:**

Description R'0	Budget Year 2023/24		
	Original Budget	Adjusted Budget	Variance
<b><u>Expenditure By Type</u></b>			
Employee related costs	253,723,509	249,623,509	4,100,000
Remuneration of councillors	14,542,949	14,542,949	-
<b>Bulk purchases - electricity</b>	171,431,746	171,431,746	-
Inventory consumed	49,377,778	51,877,778	(2,500,000)
<b>Debt impairment</b>	33,628,000	30,628,000	3,000,000
Depreciation and amortisation	90,301,531	90,301,531	-
Interest	18,684,994	18,684,994	-
<b>Contracted services</b>	73,830,908	73,830,908	-
Transfers and subsidies	1,078,362	1,078,362	-
<b>Irrecoverable debts written off</b>	-	3,000,000	(3,000,000)
<b>Operational costs</b>	81,343,395	77,543,395	3,800,000
<b>Total Expenditure</b>	<b>787,943,172</b>	<b>782,543,172</b>	<b>5,400,000</b>
<b>Surplus/(Deficit)</b>	<b>1,691,842</b>	<b>1,691,842</b>	<b>-</b>

## 2.1 Employee related costs.

The major contribution on employee related costs expenditure is as follows:

<b>Overtime Increase</b>	<b>Amount</b>
Sanitation	(800,000.00)
waste	(800,000.00)
water	(800,000.00)
Electricity	(800,000.00)
<b>Subtotal</b>	<b>(3,200,000.00)</b>
<b>Various Vacant Positions - Savings</b>	
Executive Manager Planning	924,190.00
Manager Electricity	800,000.00
Manager Parks	800,000.00
Various vacant vacancies	4,775,810.00
<b>Subtotal</b>	<b>7,300,000.00</b>
<b>Decrease Employee benefits</b>	<b>4,100,000.00</b>

## 2.2 Inventory Consumed

The major contributors are as per the table below :

<b>Inventory-Materials for Maintenance</b>	<b>Amount</b>
Sanitation	(500,000.00)
Electricity	(1,000,000.00)
Water	(1,000,000.00)
<b>Increase on Inventory</b>	<b>(2,500,000.00)</b>

- **Water Network** – to address high breakdown of water network due to asbestos pipe bust and ageing infrastructure.
- **Sanitation Network** – to address sewage spillages and also the impact of ageing infrastructure.
- **Electricity Network** – due to ageing infrastructure, the impact on loadshedding and cable theft.

## 2.3 Debt Impairment.

Debt impairment movement and irrecoverable debt written off is mainly due alignment to updated Mscoa regulations and GRAP standards for fair presentation of Financial statements as per the table below:

<b>Debt impairment &amp; Irrecoverable debt written Off</b>	<b>Amount</b>
Debt Impairment	3,000,000.00
Irrecoverable debt Written Off	(3,000,000.00)
<b>Increase on Inventory</b>	<b>-</b>

## 2.4 Contracted Services

Contracted services: remains the same however there is movement within line items. to align to expenditure trends as per the table below:

Contracted Services	Amount	Narrations
Accounting and auditing Services	300,000	Savings - Cost containment
Forensic Investigation	- 1,200,000	Forensic Investigations
Legal Services	2,499,001	
Maintenance services -Sanitation	3,000,000	Reduced to top Inventories - Inhouse maintenance
Maintenance services -Water	1,900,999	
Maintenance services -Electricity	1,000,000	
Maintenance services -Waste	- 200,000	Removal of invasive trees
Prepaid vendors	- 5,000,000	Accelaration of Prepaid electricity system Software Licences,installation of electricity smart metering systems & billing File
Security	- 2,500,000	security alarm,beams and Tactical response
Collection Cost	200,000	Only handing Marapong and Thabo Mbeki Accounts
<b>TOTAL</b>	<b>-</b>	

## 2.5 Operational Expenditure

The decrease on general expenses is due to the following.

DESCRIPTION	AMOUNT
Decrease on operational expenditure	3,800,000

- Decreased on operational due to the implementation of cost containment measures and strengthening controls on Fleet management, travelling and subsistence ,venue costs .

## 3 Capital Adjustment Budget

The capital expenditure has increased from R106 Million to R297 Million mainly due inclusion of approved rollover and adjustment of own funding capital downward to prioritise service delivery and low collection of Revenue and additional amount of R168 Million approved by DWS under Schedule 6B (ie Funds are released as and when is work completed).

DESCRIPTION	ORIGINAL BUDGET 2023/24	ROLL OVER - 2022/23	TOTAL BUDGET + ROLL OVER	ADJUST MENT	TOTAL BUDGET ADJUSTMENT 2023/24
MIG	49,141,094	15,813,655	64,954,748	-	64,954,748
WSIG	31,226,000	-	31,226,000	168,060,754	199,286,754
OWN FUNDING	26,030,000	34,911,995	60,941,995	(28,136,737)	32,805,258
<b>TOTALS</b>	<b>106,397,094</b>	<b>50,725,650</b>	<b>157,122,743</b>	<b>139,924,017</b>	<b>297,046,760</b>

### 3.2 WAY FORWARD

The adjustment budget for the 2023/2024 Financial Year be approved.

### 4. STAFF IMPLICATIONS

None

### 5. FINANCIAL IMPLICATIONS

- That the total Operating Revenue decreases from R789,6 Million to R784 Million.
- That the operating expenditure decreased from R788 million to R782.5 Million.
- That the capital Budget is revised from R106 Million to R297 Million.

### 6. OTHER PARTIES CONSULTED

All Departments

### 7. ATTACHMENTS

- Adjustment Budget schedules – **ANNEXURE 1**



ADJUSTMENT  
BUDGET SUMMARY ;



ADJUSTMENT  
BUDGET SUMMARY ;

### RECOMMENDED

1. That the Adjustment Budget for the 2023/2024 financial year be approved in accordance with Section 28 of the Municipal Finance Management Act, No. 56 of 2003.
2. That the Revenue for 2023/24 be adjusted downwards by R5.4 Million from R790 Million to R784 Million as depicted in the table below .

Description R'0	Budget Year 2023/24		
	Original Budget	Adjusted Budget	Variance
<b>Revenue</b>			
<b>Exchange Revenue</b>			
Service charges - Electricity	251,922,566	241,922,566	10,000,000
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<b>Non-Exchange Revenue</b>			-
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Transfers and subsidies - Operations	231,695,000	231,695,000	-
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<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>789,635,014</b>	<b>784,235,014</b>	<b>5,400,000</b>

3. That the Total Operating Expenditure be adjusted downward by R5.4 Million from R788 Million to R783,5 Million as depicted by the table below:

Description R'0	Budget Year 2023/24		
	Original Budget	Adjusted Budget	Variance
<b>Expenditure By Type</b>			
Employee related costs	253,723,509	249,623,509	4,100,000
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<b>Irrecoverable debts written off</b>	-	3,000,000	(3,000,000)
<b>Operational costs</b>	81,343,395	77,543,395	3,800,000
<b>Total Expenditure</b>	<b>787,943,172</b>	<b>782,543,172</b>	<b>5,400,000</b>
<b>Surplus/(Deficit)</b>	<b>1,691,842</b>	<b>1,691,842</b>	<b>-</b>

4. That the employee related costs budget for 2023/24 be adjusted downward by R4 100 000 due management prioritising only critical position and traded off by the increase on overtime.

<b>Overtime Increase</b>	<b>Amount</b>
Sanitation	(800,000.00)
waste	(800,000.00)
water	(800,000.00)
Electricity	(800,000.00)
<b>Subtotal</b>	<b>(3,200,000.00)</b>
<b>Various Vacant Positions - Savings</b>	
Executive Manager Planning	924,190.00
Manager Electricity	800,000.00
Manager Parks	800,000.00
Various vacant vacancies	4,775,810.00
<b>Subtotal</b>	<b>7,300,000.00</b>
<b>Decrease Employee benefits</b>	<b>4,100,000.00</b>

5. That the Inventory Consumed be adjusted upward wards with R2 500 000 and the breakdown is as follows:

<b>Inventory-Materials for Maintenance</b>	<b>Amount</b>
Sanitation	(500,000.00)
Electricity	(1,000,000.00)
Water	(1,000,000.00)
<b>Increase on Inventory</b>	<b>(2,500,000.00)</b>

6. That the Debt Impairment be adjusted downwards by R3 000 000, and Irrecoverable debts written off adjusted upwards by R3 000 000.

<b>Debt impairment &amp; Irrecoverable debt written Off</b>	<b>Amount</b>
Debt Impairment	3,000,000.00
Irrecoverable debt Written Off	(3,000,000.00)
<b>Total</b>	<b>-</b>

7. That the contracted services be adjusted with the movement within line items.
8. That the operational expenditure line item be adjusted downwards with R3 800 000

<b>DESCRIPTION</b>	<b>AMOUNT</b>
Decrease on operational expenditure	3,800,000



12 . That the Capital Expenditure line item be adjusted upwards from R106 million to R297 million as per the breakdown of which is as follows:

DESCRIPTION	ORIGINAL BUDGET 2023/24	ROLL OVER - 2022/23	TOTAL BUDGET + ROLL OVER	ADJUST MENT	TOTAL BUDGET ADJUSTMENT 2023/24
MIG	49,141,094	15,813,655	64,954,748	-	64,954,748
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OWN FUNDING	26,030,000	34,911,995	60,941,995	(28,136,737)	32,805,258
<b>TOTALS</b>	<b>106,397,094</b>	<b>50,725,650</b>	<b>157,122,743</b>	<b>139,924,017</b>	<b>297,046,760</b>

13. That the above adjusted Budget be submitted to the Provincial and National Treasury.