

ITEM

NORMAL ADJUSTMENT BUDGET 2025/26

EXCO: FEBRUARY 2026

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 2025/2026 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 2025/26 downward to address the impact of Economic constraints, and a hike in electricity charges that has resulted in Consumers switching to other sources of energy which includes solar and Gas.

The key drivers of adjustment budget are reduction on Electricity Billing and on Agency fees due to Closing down of Palala office and shortage of staff due employees on suspension.

Expenditure mainly due reduction on electricity charges due Municipality anticipating the reduction of NMD from 40 MVA to 25 NVA consumption and

reduction of operational cost due to implementation of cost containment strategies

The operating Revenue reduced by R 15,8 Million from R904 Million to R888 Million as a result of the above.

The operating expenditure has reduced by R15.2 Million from R901 Million to R886 Million, due to implementation of Cost containment strategies.

The movement between Operating Revenue and the Operating Expenditure has the same net operating surplus of R2,1 Million.

The capital expenditure has increased from R189 Million to R220 million mainly due alignment of DWS business case .Own funding projects has been reprioritised to address price adjustments, and to allow the finalisation of SPULMA and land use Projects

REVENUE

The Operating Revenue movement is as follows:

DESCRIPTION R'000	Budget Year 2025/26		
	Original Budget	Adjusted Budget	Original Budget vs Adjusted Budget variance
R thousands			
<u>Revenue R' Thousands</u>			
Exchange Revenue			
Service charges - Electricity	270,621	251,939	18,682
Service charges - Water	73,956	73,956	–
Service charges - Waste Water Management	31,974	33,974	(2,000)
Service charges - Waste management	26,500	26,500	–
Sale of Goods and Rendering of Services	1,915	1,915	–
Agency services	12,890	9,890	3,000
Interest	–	–	–
Interest earned from Receivables	54,227	56,227	(2,000)
Interest from Current and Non Current	7,592	7,592	–
Rental from Fixed Assets	839	639	200
Operational Revenue	2,776	2,776	–
Non-Exchange Revenue			–
Property rates	133,680	133,680	–
Fines, penalties and forfeits	6,158	6,158	–
Transfers and subsidies - Operational	260,209	260,209	–
Interest	20,874	22,874	(2,000)
Total Revenue (excluding capital transfers and contributions)	904,210	888,328	15,882

Service Charge :Electricity – R17 million reduction on Electricity consumption due consumers switching to other sources of Energy i.e. gas and Solar and increased electricity charges by Eskom.

Service Charge : Waste Water Management and Waste management has been adjusted upwards to align to the actual trends

Agency Fees: Reduction due the closing of Palala Office for registry and employees on suspension .The department is busy with recruitment process and also liaising with the transport Department resources.

Interest earned on exchange and non – Exchange Transaction - Increase due to high debt book and the impact of Economic constraint where consumers are unable to pay their debts and the inclusion of possible relief for consumer making payment arrangement.

1. EXPENDITURE

The operating expenditure has reduced by R15,2 Million from R901 Million to R886 Million due to implementation of cost containment, alignment to expenditure trends increase on allowance of traffic department ,Overtime and operational costs due increase consumption cost at villages ,irrecoverable debt written off traded of by reduction od cost in inventory, bulk electricity purchase and debt impairment.

The movement in expenditure is due to the following items:

DESCRIPTION R'000	Budget Year 2025/26		
	Original Budget	Adjusted Budget	Original Budget vs Adjusted Budget variance
Expenditure By Type			
Employee related costs	273,857	275,857	(2,000)
Remuneration of councillors	16,063	16,063	–
Bulk purchases - electricity	205,014	188,014	17,000
Inventory consumed	58,351	46,351	12,000
Debt impairment	52,323	46,323	6,000
Depreciation and amortisation	95,671	95,671	–
Interest	21,490	19,490	2,000
Contracted services	83,590	79,060	4,530
Transfers and subsidies	2,142	2,142	–
Irrecoverable debts written off	15,500	38,556	(23,056)
Operational costs	77,405	78,605	(1,200)
Total Expenditure	901,405	886,132	15,274
Surplus/(Deficit)	2,804	2,196	608

2.1 Employee related costs.

The major contribution on employee related costs expenditure is due increase on overtime due to ageing infrastructure and inclusion of travelling allowance for Traffic Department, their service has been extended to the villages.

2.2 Bulk Electricity purchases – Reduction due low consumption from the consumers as consumers are moving to other sources of Energy. The municipality is on the final engagements with Eskom to reduce the NMD.

2.3 Inventory Consumed

The budget has been adjusted down wards due to less material drawn from stores and alignment to the expenditure trends.

2.4 Irrecoverable debt and Debt Impairment.

Irrecoverable debt written off has been adjusted upwards due to the amount of uncollectible amount written off by council in relation to Indigents to address high debt book which resulted on the reduction of debt impairment. Municipality is implementing revenue enhancement strategies.

2.5 Contracted Services

Contracted services: has been adjusted downwards due to alignment to expenditure trends and implementation of cost containment.

2.6 Operational Expenditure

The increase on operational expenses is due to the following:

Increase on operational increase consumption cost at villages for electricity for high mast lights and water pumps . The municipality is implementing cost containment on travelling and subsistence ,venue costs.

3 Capital Adjustment Budget

The capital expenditure has increased from R189 Million to R220 million mainly due alignment of DWS business case .Own funding projects has been reprioritised to address price adjustments, and to allow the finalisation of SPULMA and land use Projects.

TOTAL CAPEX	2025-26	Adjustment	Variance
MIG	50,007,437	50,007,437	-
ENERGY EFFICIENCY	4,000,000	4,000,000	-
WSIG	63,300,000	98,065,514	(34,765,514.00)
OWN FUNDING	40,606,610	36,089,725	4,516,885.00
TOTAL CAPITAL GRANTS	157,914,047	188,162,676	(30,248,629.00)
ROLL OVER PROJECTS	2025-26	Adjustment Budget 2026	Variance
DISASTER RECOVERY GRANT	19,475,000	18,264,354	1,210,646
OWN FUNDING	11,975,176	14,240,176	(2,265,000)
TOTAL CAPEX	31,450,175.66	49,690,825.93	(18,240,650.27)
			-
TOTAL ROLL OVER PROJECTS	189,364,223.10	220,667,206.10	(31,302,983.00)

4. WAY FORWARD

The adjustment budget for the 2025/2026 Financial Year be approved.

5. STAFF IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

- That the total Operating Revenue decreases from R904 Million to R888 Million.
- That the operating expenditure decreased from R901 million to R886 Million.
- That the capital Budget is increased from R189 Million to R221 Million.

7. OTHER PARTIES CONSULTED

All Departments

8. ATTACHMENTS

- Adjustment Budget schedules

 LLM SUMMARY
ADJUSTMENT BUDGET

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Adjustment budget 2

RECOMMENDED

1. That the Adjustment Budget for the 2025/2026 financial year be approved in accordance with Section 28 of the Municipal Finance Management Act, No. 56 of 2003.

2. That the Revenue for 2025/26 be adjusted downwards by R15.8 Million from R904 Million to R888 Million.
3. That the Total Operating Expenditure be adjusted downward by R15.2 Million from R901 Million to R886 Million.
4. That the Capital Expenditure line item be adjusted upwards from R189 million to R221 million.
5. That the above adjusted Budget be submitted to the Provincial and National Treasury.