

# REPORT TO THE uMGUNGUNDLOVU DISTRICT MUNICIPAL COUNCIL



File Reference :  
Report Number:

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For consideration

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**SUBJECT: SPECIAL ADJUSTMENT BUDGET 3: 2022/23**

**DATE : 29 JUNE 2023**

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## 1. STRATEGIC OBJECTIVE

To obtain Council approval of the Special Adjustment Budget 3 estimates for the 2022/23 MTREF period in terms of Section 28 of the Local Government Municipal Finance Management Act, 56 of 2003.

## 2. LEGISLATIVE REQUIREMENTS

In terms Section 28 of the MFMA, a municipality may revise its adopted budget through an adjustment budget. The adjustment budget -

- (i) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- (ii) may appropriate additional revenues that have become available above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- (iii) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the Mayor of the municipality;
- (iv) may authorise the utilisation of projected savings in one vote towards spending under another vote;
- (v) may authorise the spending of funds that were unspent at the end of the part financial year where the under-spending could not reasonable have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- (vi) may correct any errors in the annual budget; and
- (vii) may provide for any other expenditure within a prescribed framework.

## 3. REPORT

The 2022/2023 original budget was tabled to Council in May 2022 and was submitted to both National and Provincial Treasuries and was evaluated as funded, evidencing an improvement from the prior four years which were unfunded.

The mid-year assessment was prepared by the Budget and Treasury Office in line with Section 72(1)(a) of the Local Government Municipal Finance Management Act No. 56 of 2003 (MFMA), the results of which indicated the need for an adjustment budget.

The 2022/2023 main adjustment budget was tabled to Council in March 2023 and was submitted to both National and Provincial Treasuries and was evaluated as funded.

The budget estimates for the 2022/23 MTREF period were further revised through special adjustment budgets in April 2023 following additional funding afforded to the municipality; and in June 2023 to re-allocate water project funds (capital) to the sanitation programme (operational).

The budget estimates for the 2022/23 MTREF period have, again, been revised to allocate additional funds to the uMgungundlovu Development Agency (UMEDA) and to ensure that the Municipal Infrastructure is spent at 100% by the end of the 2022/23 financial year.

#### 4.1 **SPECIAL ADJUSTMENT BUDGET 2 SUMMARY**

An overview of the special adjustment budget as proposed is summarised as follows:

	Final Budget 2021/22	Original Budget 2022/23	Adjustment Budget 2022/23	Special Adjustment Budget 2022/23	Special Adjustment Budget 2: 2022/23	Special Adjustment Budget 3: 2022/23
Operating Grants and Transfers	623 586 423	680 342 000	687 903 698	693 903 698	699 440 594	699 557 759
Internally Generated Revenue	410 140 120	660 123 377	666 776 305	666 776 305	666 776 305	666 776 305
<b>Total Operating Revenue</b>	<b>1 033 726 543</b>	<b>1 340 465 377</b>	<b>1 354 680 003</b>	<b>1 360 680 003</b>	<b>1 366 216 899</b>	<b>1 366 334 064</b>
Operating Expenditure	855 294 672	943 811 372	964 084 942	969 302 332	974 117 025	974 218 907
<b>Operating Surplus / (Deficit)</b>	<b>178 431 870</b>	<b>396 654 005</b>	<b>390 595 062</b>	<b>391 377 671</b>	<b>392 099 874</b>	<b>392 115 157</b>
Capital Grants and Transfers	275 893 000	202 467 000	211 900 224	321 974 224	316 437 328	316 320 163
<b>Surplus/ (Deficit) for the year</b>	<b>454 324 870</b>	<b>599 121 005</b>	<b>602 495 286</b>	<b>713 351 895</b>	<b>708 537 202</b>	<b>708 435 320</b>
Capital Expenditure	279 749 453	204 267 000	188 241 242	284 677 764	279 863 072	279 761 189
<b>Budget Cash Surplus</b>	<b>174 575 418</b>	<b>394 854 005</b>	<b>414 254 043</b>	<b>428 674 131</b>	<b>428 674 131</b>	<b>428 674 131</b>
Non-Cash Items	169 626 588	184 554 784	184 554 784	184 554 784	184 554 784	184 554 784
<b>Net Cash Budget</b>	<b>344 202 006</b>	<b>579 408 789</b>	<b>598 808 827</b>	<b>613 228 915</b>	<b>613 228 915</b>	<b>613 228 915</b>

*Table 1: Budget Summary*

The summary of adjustments per category are as follows:

- **Operational Grants and Transfers**
  1. An additional R 117 165 adjusted from Municipal Infrastructure Grant capital funding.
- **Capital Grants and Transfers**
  2. A reduction of R 117 165 adjusted to Municipal Infrastructure Grant operational funding.
- **Operational Expenditure**
  3. An additional R 101 882 (excluding VAT) citing the adjustment to the MIG operational grant funding resulting from savings gained from the Mbhava Project.

4. An upward adjustment of R 500 000 to Transfers and Subsidies expenditure relating to UMEDA where reallocations were made from savings identified within the operational expenditure budget votes of the Local Economic Development function.

- **Capital Expenditure**

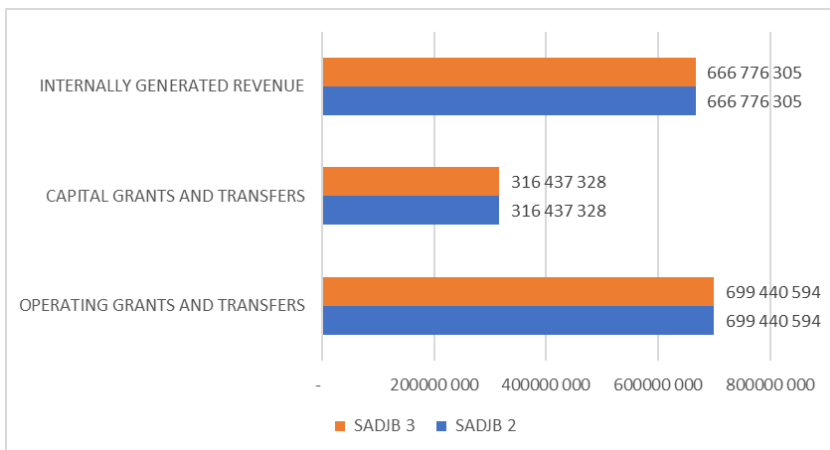
5. A reduction of R 101 882 (excluding VAT) citing the adjustment to the MIG capital grant funding.

## 4.2 REVENUE FRAMEWORK

The summary of the revenue adjustments per category is as follows:

	2021/22	2022/23 ORGB	2022/23 ADJB	2022/23 SADJB	SADJB 2	ADJ	SADJB 3
<b>REVENUE FRAMEWORK</b>							
<b>OPERATING GRANTS AND TRANSFERS</b>	623 586 423	680 342 000	687 903 698	693 903 698	699 440 594	117 165	699 557 759
MUNICIPAL INFRASTRUCTURE GRANT	-	-	566 776	6 566 776	12 103 672	117 165	12 220 837
<b>CAPITAL GRANTS AND TRANSFERS</b>	278 479 000	205 174 000	211 900 224	321 974 224	316 437 328 -	117 165	321 857 059
MUNICIPAL INFRASTRUCTURE GRANT	132 893 000	116 867 000	116 300 224	179 274 224	173 737 328 -	117 165	173 620 163
<b>TOTAL OPERATING REVENUE</b>	1 033 726 543	1 340 465 377	1 354 680 003	1 360 680 003	1 366 216 899	117 165	1 366 334 064

*Table 2: Revenue Budget Adjustments*



*Graph 1: Revenue Comparison between the Main Adjustment and Special Adjustment Budget*

The total adjustments proposed for the revenue framework is at a net amount of **R nil** due to the addition and reduction both at an amount of R 117 165 million for operational and capital funding, respectively.

### 3.3 EXPENDITURE FRAMEWORK

#### 3.3.1 OPERATING EXPENDITURE

	2021/22	2022/23 ORGB	2022/23 ADJB	2022/23 SADJB	SADJB 2	ADJ	SADJB 3
<b>OPERATIONAL EXPENDITURE</b>							-
TRANSFERS AND SUBSIDIES	9 158 074	7 500 000	9 000 000	9 000 000	9 000 000	500 000	9 500 000
ECONOMIC DEVELOPMENT & PLANNING	9 158 074	7 500 000	9 000 000	9 000 000	9 000 000	500 000	9 500 000
UMEDA	9 158 074	7 500 000	9 000 000	9 000 000	9 000 000	500 000	9 500 000
<b>CONTRACTED SERVICES</b>	<b>115 840 492</b>	<b>159 553 722</b>	<b>160 218 395</b>	<b>159 218 395</b>	<b>159 218 395 -</b>	<b>350 000</b>	<b>158 868 395</b>
ECONOMIC DEVELOPMENT & PLANNING	11 845 886	8 530 000	1 677 293	1 677 293	1 677 293 -	350 000	1 327 293
PROFESSIONAL SERVICES - LED	-	350 000	350 000	350 000	350 000 -	350 000	-
<b>INVENTORY CONSUMED</b>	<b>204 834 219</b>	<b>227 285 780</b>	<b>239 524 370</b>	<b>245 741 761</b>	<b>250 556 453</b>	<b>101 882</b>	<b>245 843 644</b>
TECHNICAL	203 244 586	223 469 480	234 616 983	239 834 374	244 649 066	101 882	239 936 257
VIP TOILETS - MIG	-	-	492 849	5 710 240	10 524 932	101 882	10 626 814
<b>OPERATIONAL COST</b>	<b>41 389 678</b>	<b>55 141 046</b>	<b>48 738 413</b>	<b>48 738 413</b>	<b>48 738 413 -</b>	<b>150 000</b>	<b>48 588 413</b>
ECONOMIC DEVELOPMENT & PLANNING	-	1 350 000	695 750	695 750	695 750 -	150 000	545 750
GIFTS AND PROMOTIONAL ITEMS - LED	-	-	60 000	60 000	60 000 -	50 000	10 000
HIRE COSTS - EXHIBITIONS	-	100 000	100 000	100 000	100 000 -	100 000	-
<b>TOTAL OPERATING EXPENDITURE</b>	<b>852 708 672</b>	<b>943 811 370</b>	<b>964 084 942</b>	<b>969 302 333</b>	<b>974 117 025</b>	<b>101 882</b>	<b>974 218 907</b>
<b>TOTAL EXPENDITURE</b>	<b>1 135 044 124</b>	<b>1 150 785 370</b>	<b>1 152 326 184</b>	<b>1 253 980 097</b>	<b>1 253 980 097</b>	<b>-</b>	<b>1 253 980 097</b>

In terms of the operating expenditure budget, an additional amount of **R 101 882** (excluding VAT) has been allocated to inventory, specifically for the construction of VIP toilets. resulting in a revised operational expenditure budget of **R 974.218 million**.

The uMgungundlovu Economic Development Agency has requested additional funding from the municipality for funding the Economic Recovery Unit / Social. The initial budget allocated to the unit was R 1.2 million for a portion of the first financial year (2021/2022) and R 2 000 000.00 for the subsequent financial year (2022/2023). Commitments were made by the agency for the purpose of project implementation. A submission is therefore made for the consideration of the allocation of R 500 000.00. Savings have been identified in the Local Economic Development function to cater for such adjustment.

#### 3.3.2 CAPITAL EXPENDITURE

	2021/22	2022/23 ORGB	2022/23 ADJB	2022/23 SADJB	SADJB 2	ADJ	SADJB 3
<b>EXPENDITURE FRAMEWORK</b>							
<b>CAPITAL EXPENDITURE</b>	<b>282 335 453</b>	<b>206 974 000</b>	<b>188 241 242</b>	<b>284 677 764</b>	<b>284 677 764 -</b>	<b>101 882</b>	<b>284 575 881</b>
MUNICIPAL INFRASTRUCTURE GRANT	132 893 000	116 867 000	101 130 629	155 890 629	151 075 937 -	101 882	150 974 055

The Municipal Infrastructure Grant (MIG) capital expenditure allocation is proposed to reduce by **R 101 882** (excluding VAT) to a revised total of **R 150.974 million** as a result of the additional funds allocated to the sanitation programme (operational) to ensure 100% spend of the grant.

It is therefore recommended that such amount be reallocated to the sanitation programme for reasons stated above.

### 4.4 TARIFFS AND SERVICE CHARGES

There are no adjustments proposed on the approved tariffs and service charges.

#### 4. FINANCIAL IMPLICATIONS AND COMMENTS

The revised operating revenue budget revenue estimates have increased by **R 117 165**.

The revised capital revenue budget estimates have decreased by **R 117 165**.

The operating expenditure has increased by **R 101 882** (excluding VAT).

The capital expenditure has decreased by **R 101 882** (excluding VAT).

#### 5. RECOMMENDATIONS

1. That the Full Council considers the proposed adjustment budget estimates for the 2022/23 MTREF period as follows:

a) The proposed budget funding of **R1 682 654 227** be approved to be funded from the following:

Operating Revenue	R 666 776 305
Grant Funding – Operational	R 699 557 759
Grant Funding – Capital	R 316 320 163

b) The proposed expenditure appropriations of **R 1 253 980 097** be approved and be allocated as follows:

Operating Expenditure	R 974 218 907
Capital Programme	R 279 761 189

c) The capital expenditure programme of **R 279 761 189** (excluding VAT) be approved and be funded from the following sources:

Municipal Infrastructure Grant	R 150 974 055
Water Services Infrastructure Grant	R 106 608 696
Accelerated Water Intervention Programme	R 8 695 652
Disaster Relief Grant	R 8 782 609
Finance Management Grant	R 426 087
Expanded Public Works Programme	R 17 391
Internal funding	R 4 256 700

d) That the funding allocation for UMEDA be revised to R 9 500 000 for the 2022/23 financial year.

e) That the tariff charges for water and sanitation remains as adopted by Council in the original budget.

2. That the approved special adjustment budget estimates be made public in the manner envisaged by Chapter 4 of the Local Government: Municipal Systems Act;

3. That the Accounting Officer submits the special adjustment budget as well as all supporting schedules and documentation as required by Section 17(3) of the MFMA to both the Provincial and National Treasuries.