

**REPORT TO THE uMGUNGUNDLOVU DISTRICT MUNICIPAL
COUNCIL**



File Reference : Author : S.B. NDABANDABA
Report Number: Designation: CHIEF FINANCIAL OFFICER

For consideration

1st Level – Budget Steering Committee : /02/2022
2nd Level – Finance Portfolio Committee : /02/2022
3rd Level – EXCO : /02/2022
4th Level – Council : /02/2022

SUBJECT: ADJUSTMENT BUDGET: 2021/22
DATE : 14 FEBRUARY 2022

1. STRATEGIC OBJECTIVE

To obtain Council approval of the Adjustment Budget estimates for the 2021/22 MTREF period in terms of Section 28 of the Local Government Municipal Finance Management Act, 56 of 2003.

2. LEGISLATIVE REQUIREMENTS

Local Government: Municipal Finance Management Act, 56 of 2003 (MFMA)
Municipal Budget & Reporting Regulations (GN 393 in GG32141 dated 17 April 2009)

3. ATTACHMENTS

1. Draft Adjustment Budget Estimates - 2021/22.

4. BACKGROUND

During the preparation and adoption of the 2021/22 MTREF budget Council adopted a budget that was unfunded. A plan to ensure that the budget was funded over the MTREF period was subsequently adopted.

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.

MFMA Circular 107 paragraph 8 states that:

8.1 "...Municipalities are reminded to develop a credible funding plan where the budget is unfunded. This plan must be tabled in and adopted by Council with the 2021/22 MTREF budget and submitted to the National and provincial treasuries when they submit their tabled and adopted budget in terms of Section 22(b)(i) and 24 (3) of the MFMA. Failure to approve a credible plan will result in the invoking of Section 216(2) of the Constitution."

5. DISCUSSION

MFMA Circular 74 and 89 highlights the importance of municipalities tabling funded budgets of where budgets are not funded, the municipality must table to Council a plan on how and when the budget will be funded.

The 2021/2022 original budget was tabled to Council in May 2021 and was submitted to both National and Provincial Treasuries and was evaluated as unfunded mainly due to the poor collection rate of debtors which remains significantly below the prescribed norm of 95% and a historically high creditors balance.

Due to the impact of the Covid-19 pandemic, the collection rate reduced in the prior year and is assumed to remain constant for the upcoming short to medium-term. The 2021/22 annual financial statements reflected an improvement in the creditors value from R244 million in 2019/20 to R233 million in 2020/21.

The Budget Funding Plan detailing the financial recovery strategies of the municipality was adopted by Full Council on 29 September 2021.

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.

Following the analysis of expense accounts in the financial system various reclassifications / reallocations of expenditure were processed to ensure that the reported expenses are in line with the nature of the expenditure. Consequently, in the instances whereby the expenditure had not been allocated correctly, the corresponding budget allocations were also misallocated.

In other instances, the budget had not been itemized sufficiently and consequently corresponding expenditure was not provided for.

The budget estimates for the 2021/22 MTREF period have been revised and an adjustment budget is tabled to Council for consideration.

An overview of the draft adjustment budget as proposed reveals the following:

ADJUSTMENT BUDGET ESTIMATES FOR 2021/22 MTREF TO 2023/24 MTREF				
	Budget 2021/22	Proposed Adjustment Budget 2021/22	Budget 2022/23	Budget 2023/24
Operating Grants & Transfers Received	611 851 000.00	623 586 422.54	653 369 000.00	678 825 000.00
Internally Generated Revenue	381 078 174.36	409 615 120.05	427 638 185.33	445 598 989.11
Operating Expenditure	849 995 163.58	855 346 956.29	892 982 222.37	930 487 475.71
Operating Surplus / (Deficit)	142 934 010.78	177 854 586.30	188 024 962.96	193 936 513.40
Capital Transfers Recognized	195 479 000.00	213 479 000.00	195 141 000.00	204 591 000.00
Surplus/ (Deficit) for the year	338 413 010.78	391 333 586.30	383 165 962.96	398 527 513.40
Less: Capital expenditure	195 479 000.00	214 030 568.55	195 141 000.00	200 591 000.00
Budget Cash Surplus	142 934 010.78	177 303 017.75	188 024 962.96	197 936 513.40
Add: Non-Cash Items	89 590 371.38	169 626 588.38	177 090 158.27	184 527 944.92
Net Budget Cash Position	232 524 382.16	346 929 606.13	365 115 121.23	382 464 458.32

The summary of adjustments per category of expenditure are as follows:

SUMMARY	NET MOVEMENT	% CONTRIBUTION
CAPITAL EXPENDITURE - INTERNAL FUNDING	693 168.55	3%
EMPLOYEE COSTS	- 14 862 384.81	-70%
REMUNERATION OF COUNCILLORS	- 1 380 619.19	-7%
BAD DEBTS WRITTEN OFF	20 209.00	0%
DEBT IMPAIRMENT	80 000 000.00	379%
LOSS ON DISPOSAL OF ASSETS	16 008.00	0%
TRANSFERS AND SUBSIDIES	1 200 000.00	6%
CONTRACTED SERVICES	- 870 960.06	-4%
INVENTORY CONSUMED	- 72 607 860.00	-344%
OPERATING LEASE	1 660 000.00	8%
OPERATIONAL COST	15 531 885.39	73%
GRANT FUNDED PROGRAMMES	11 735 422.54	56%
	21 134 869.43	100%

5.1 Capital budget

The capital budget is 100% funded from grants at a total of R195.48 million.

The total original capital budget for the 2021/ 2022 financial year is R 195.5 million. This includes the allocations from the Municipal Infrastructure Grant (MIG) of R 107.9 million, the Water Services Infrastructure Grant (WSIG) of R 85 million and the Rural Roads Assets Management Grant (RRAMS) of R 2.6 million.

Year to date expenditure for MIG is R 106.4 million, WSIG is R 48.1 million and RRAMS is nil.

Total capital expenditure to date is R 154.5 million or 79.03% against the original budget.

The capital budget is proposed to be adjusted due to addition funding of around R18 million to be received from COGTA through the Accelerated Water Intervention Programme.

Furthermore, the high backlog in sanitation provision necessitated the re-prioritisation of projects.

The proposed allocation revisions for the capital budget are detailed in the table below.

Project Name	Funding Source	2020/21 MTREF	2021/22 MTREF	Revised Budget 2021/22	Budget 2022/23	Budget 2023/2024
		Budget 2020/21	Budget 2021/22			
Water Provision						
Nkanyezini Water	MIG	-	21 000 000.00	3 994 764.00	46 548 485.34	27 949 762.33
Manzanyama Water	MIG	2 440 989.00	-	-	-	-
Mpolweni, Thokozani, Claridge	MIG	51 885 416.00	51 314 785.70	31 977 500.00	51 361 792.65	94 274 237.67
Trust Feeds Phase 1	MIG	9 378 878.26	10 770 603.08	13 000 431.00	16 134 259.52	-
Maqonqo Water	MIG	3 845 122.00	172 140.43	-	-	-
Manyavu Water	MIG	2 653 567.00	-	-	-	-
Hilton AC	MIG	-	-	-	-	-
Merrivale AC	MIG	-	-	-	-	-
Enguga Entshayabantu & Macksam CWSS Phase 5	MIG	4 872 227.00	636 168.77	3 017 267.00	277 462.49	-
Mbhava & Mpethu Swayimane Water Supply Phase 2	MIG	14 395 656.00	6 699 302.02	27 439 813.00	2 545 000.00	-
KwaMathwanya Water Reticulation	MIG	1 403 283.00	3 000 000.00	9 523 225.00	-	-
Mpofana Bulk- Mpofana village	MIG	-	5 000 000.00	-	-	-
Cedara Water -bulk main link	MIG	-	5 300 000.00	-	-	-
Enguga Water Supply - Covid 19 Response	ES	1 625 398.00	-	-	-	-
Mathwanya Water Supply - Covid 19 Response	ES	1 384 545.00	-	-	-	-
Mbhava Water Supply - Covid 19 Response	ES	10 758 082.15	-	-	-	-
		90 875 138.26	103 893 000.00	88 893 000.00	116 867 000.00	122 224 000.00
Water Provision						
Nadi - Efaye Phase 2(uMshwathi Regional Bulk)	WSIG	8 874 062.00	-	-	-	-
Mlulwa & Mt. Alias Phase 3A (uMshwathi Regional Bulk)	WSIG	381 304.00	-	-	-	-
Nadi lo Ekhamanzi Phase 3B	WSIG	26 607 354.00	-	6 147 346.00	-	-
Greater Efaye	WSIG	44 137 280.00	85 000 000.00	78 852 653.00	70 560 000.00	75 650 000.00
Ozwathini	WSIG	-	-	-	-	-
		80 000 000.00	85 000 000.00	84 999 999.00	70 560 000.00	75 650 000.00
Sanitation Provision						
uMshwathi VIP Backlog Toilets	MIG	1 521 310.29	666 665.00	4 984 845.00	-	-
Impendle VIPBacklog Toilets	MIG	1 521 310.29	666 667.00	2 803 031.00	-	-
Mkhambathini VIP Backlog Toilet	MIG	1 521 310.29	666 667.00	2 803 031.00	-	-
Umgengi VIP Backlog Toilets	MIG	1 521 310.29	666 667.00	2 803 031.00	-	-
Richmond VIP Backlog Toilets	MIG	1 521 310.29	666 667.00	2 803 031.00	-	-
Mpofana VIP Backlog Toilet	MIG	1 521 310.29	666 667.00	2 803 031.00	-	-
uMshwathi VIP Backlog Toilets	ES	4 577 829.30	-	-	-	-
Impendle VIPBacklog Toilets	ES	4 577 829.14	-	-	-	-
Mkhambathini VIP Backlog Toilet	ES	4 577 829.14	-	-	-	-
Umgengi VIP Backlog Toilets	ES	4 577 829.14	-	-	-	-
Richmond VIP Backlog Toilets	ES	4 577 829.14	-	-	-	-
Mpofana VIP Backlog Toilet	ES	4 577 829.14	-	-	-	-
uMshwathi VIP Backlog Toilets	AWIP	-	-	3 000 000.00	-	-
Impendle VIPBacklog Toilets	AWIP	-	-	3 000 000.00	-	-
Mkhambathini VIP Backlog Toilet	AWIP	-	-	3 000 000.00	-	-
Umgengi VIP Backlog Toilets	AWIP	-	-	3 000 000.00	-	-
Richmond VIP Backlog Toilets	AWIP	-	-	3 000 000.00	-	-
Mpofana VIP Backlog Toilet	AWIP	-	-	3 000 000.00	-	-
		36 594 836.74	4 000 000.00	37 000 000.00	-	-
Rural Roads Asset Management						
Planning of Rural Roads Maintenance	RRAMS	2 552 000.00	2 586 000.00	2 586 000.00	2 714 000.00	2 717 000.00
		2 552 000.00	2 586 000.00	2 586 000.00	2 714 000.00	2 717 000.00

CAPEX Summary

Projects						
Water Provision - MIG	MIG	90 875 138.26	103 893 000.00	88 893 000.00	116 867 000.00	122 224 000.00
Water Provision - WSIG	WSIG	80 000 000.00	85 000 000.00	84 999 999.00	70 560 000.00	75 650 000.00
Sanitation Provision	MIG	9 127 861.74	4 000 000.00	19 000 000.00	-	-
Rural Roads Asset Management	RRAMS	2 552 000.00	2 586 000.00	2 586 000.00	2 714 000.00	2 717 000.00
Energy Efficiency and Demand Side Management	EEDSM	-	-	-	-	-
Covid-19 Capital Grant - Water Provision	ES	13 768 025.15	-	-	-	-
Covid-19 Capital Grant - Sanitation Provision	ES	27 466 975.00	-	-	-	-
Accelerated Water Intervention Programme- Sanitation	AWIP	-	-	18 000 000.00	-	-
		223 790 000.15	195 479 000.00	213 478 999.00	190 141 000.00	200 591 000.00
Funding						
Municipal Infrastructure Grant (MIG)		100 003 000.00	107 893 000.00	107 893 000.00	116 867 000.00	122 224 000.00
Water Services Infrastructure Grant (WSIG)		80 000 000.00	85 000 000.00	84 999 999.00	70 560 000.00	75 650 000.00
RRAMS		2 552 000.00	2 586 000.00	2 586 000.00	2 714 000.00	2 717 000.00
Energy Efficiency and Demand Side Management		-	-	-	-	-
Covid-19 Capital Grant		41 235 000.15	-	-	-	-
Accelerated Water Intervention Programme		-	-	18 000 000.00	-	-
		223 790 000.15	195 479 000.00	213 478 999.00	190 141 000.00	200 591 000.00

5.2 Budget Funding Plan

The 2021/22 Budget Funding Plan detailing the financial recovery strategies of the municipality was adopted by Full Council on 29 September 2021.

The year-to date (01 July to 31 January 2022) financial information indicates the following:

The service charges generated to date for both water and sanitation are below the budgeted projections. In month seven we would anticipate having generated approximately 58% of the budgeted amount. Service charges for water are 52% which is slightly below the projection as per the budget funding plan whereas service charges for sanitation are below the projection at 41%. The service charges projection was not adjusted as we anticipate increased consumption in the summer months. However, the sanitation charges projection was reduced in line with Provincial Treasury recommendations.

Interest earned on external investments as well as the interest earned on outstanding debtors was projected conservatively for purposes of the budget funding plan where actuals to date are 290% and 221%, respectively, of the projected amounts. The projections of interest earned from investments and outstanding debtors has been adjusted to align the projection to the amounts earned to date.

The employee related costs (employee and councillors) are slightly above the budget funding plan projections at 61% of the projected amount as per the budget funding plan whereas the remuneration of councillors is at 50%. Savings were identified on both employee related costs and remuneration of councillors and applied to the adjustment budget.

Reclassifications have been processed on the financial system following the conclusion of the analysis of expense accounts in the financial system to ensure accurate transacting and reporting. The corresponding budget amounts which were previously misallocated have now been allocated correctly. The expense budget allocations were interrogated and the adjustments applied ensure that expenditure is focused on the core operations of the municipality.

Revisions are recommended to the 2021/22 Budget Funding Plan to align to the 2021/22 Adjusted Budget.

Following the changes as per the Adjustment Budget, the 2021/22 budget remains unfunded.

The revisions to the budget funding plan will be finalised once the feedback has been received from Provincial Treasury on the assessment of the 2021/22 Adjustment Budget.

5.3 Tariffs and Service Charges

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

6. FINANCIAL RECOVERY: REVENUE ENHANCEMENT, DEBT MANAGEMENT, COST CONTAINMENT AND CASH FLOW MANAGEMENT PLAN.

REVENUE RAISING STRATEGIES

The drive was reintroduced since June 2018 and has been ongoing ever since, as a joint initiative between all departments. The municipality engaged the Development Bank of Southern Africa as a strategic partner to fund the revenue enhancement and collection strategy. The main purpose and principal strategic objective of the joint effort is to sustain and re-engineer the processes of revenue raising, improve customer relations, collection, and effective debt management to address and reduce the risk of financial distress. The project has since been completed and the close out report has been signed between the partners. The project has subsequently been rolled out to the entire District.

The focus areas and key deliverables for the project are:

a. Effective communication and Customer Care

- Creating a sound and effective communication strategy for our customers.
- Enhance levels of customer care and increase responsiveness in addressing billing and other service delivery queries
- Improve efficiency at our customer contact points and
- Improve accessibility of customer access points
- Improve and intensify the indigent customer registration drive

b. Meter reading which involves

- Improve capacity of human capital to improve efficiency and accuracy,
- Effective management of meter readers,
- Improve data collection and data integrity.
- Identification and verification of meters.
- Meter location
- Meter replacements
- GIS Integration with the billing system.

c. Billing

- Correct customer information / details
- Ensure accuracy of billing,
- Timely posting of statements

The consumption patterns observed during the 2018/2019 adjustment budget per consumption category are expected to remain the same if not reduce, except for the more than 60 kl per month consumption category, which is recommended to be increased by a maximum of 15% resulting from the identification of new meters and including consumers on the ground but not on the debtors' book. The increase of 15% is not anticipated to increase cost of bulk purchase as the customers are already receiving the service but are not billed for it. Another strategic partner, namely Umngeni Water, has pledged assistance to the municipality in a form of fixing all leaks and change of meters in the Mpophomeni area. This will reduce unaccounted for water and reduce non-revenue water as the meters will be replaced and or repairs for effective and correct billing which result in reliable billing information.

REVENUE COLLECTION STRATEGIES – DEBT MANAGEMENT

The 2020/2021 original budget assumption is that the Municipality will collect 40% of its raised bills which has been revised to 37% in line with the recalculation by the Provincial Treasury.

With the implementation of the revenue raising strategies, the municipality anticipates improvements in the quantity and quality of bills. The approved water and sanitation revenue budget translates to an increase in internally generated revenue, but the impact of the increased revenue is expected to be eroded by the historic increase in expenditure and delay in payments which we aim to gradually reduce year on year by improving cashflow management.

Previously, the municipality implemented a debt amnesty drive in efforts to encourage customers to pay and settle their bills and the project did bear fruit during the effective period. Council resolved to implement an Incentive Scheme to consumers effective from 15 June 2021 and is valid until 01 February 2022.

REVENUE COLLECTION PLANNED APPROACH

The municipality has established a Revenue Enhancement and Collections Committee with a specific purpose to look into and address the financial and institutional challenges faced by the municipality contributing to reduced collection rate. The Committee is constituted by members of staff from the following sections /departments:

- a. Community Services including Planning and GIS
- b. Technical Services
- c. Financial Services
- d. Municipal Manager's Office including Water Services Authority and Intergovernmental Relations.

The committee has identified challenges contributing to the reduced revenue collection and have divided a tackling strategy into three (3) phases which are:

- Short term phase which concentrates on collection from Government, Organs of State and Businesses.
- Medium term which concentrates on stabilizing and improving the billing system, improving the quality of billing data and customer care and indigent support.
- Long term phase which involves data cleansing, meter replacements and policy changes. This phase involves re verification of customers, changes to policies such as the account holder will be in the name of the property owner, flats to have bulk meters and body corporate responsible for individualized collections and the revitalization of the indigent support applications process etc.

COST CONTAINMENT MEASURES

The municipality has committed to reducing its unnecessary operational expenditure, concentrate of core business expenditure, limit or stagger and prioritize filling of posts to those that affect statutory compliances. Further, as part of cost containment measures, the municipality is reviewing all its contracts with an effort to reduce unnecessary services within the contract. As part of cost containment measures, and consideration that water and sanitation the core business, where minor repairs to the meter and or reticulation are identified, they are fixed on the spot to reduce unaccounted for water and eventually reduce the cost of bulk water purchase.

The following are expenditure items that are regarded as non – essentials for the municipality and should be cut:

- a) Interest charged on invoices. This line item is regarded as fruitless and wasteful. Members of staff are to take necessary care with relation to payments to suppliers and strive not to delay

payments. This line expenditure, where possible must be recovered from the responsible individual if there were no valid reasons for delaying payment.

- b) Legal Costs. Resources from other organs of state must be utilized prior to the use of private legal firms.
- c) Use of council vehicles. This expenditure item should be strictly used for municipal business and business trips.
- d) Insurance Top up costs / excess. A task team to be established to follow up on all insurance claims. Where negligence can be proven, the excess fee must be recovered from the responsible individual.
- e) Stationery including print paper. As much as possible the Heads of departments must devise a strategy to control stationery, where working paperless is possible, it must be adopted.
- f) Travelling – Domestic. Unless trips are funded by the hosting department or company, and where travelling does not involve improvement improved efficiency of the individual such as changes to law or standards, travelling is not recommended.
- g) Travelling – International. This item of expenditure is not recommended unless with the discretion of Council, International trips can be approved by Council with specific special circumstances.
- h) Catering for meetings – Outside Stakeholders. Unless meetings started before 07h00 or travelling for a meeting was before 06h00, catering for other meetings will be discontinued. Meetings are recommended to be held between 08h00 -13 h00 and 14h00 – 16h 30.
- i) Catering – Municipal Meetings. This has been cancelled and will remain not available. Meetings are recommended to be held between 08h00 – 13h 00 and 14h00 – 16h30 to allow staff members to attend to their lunch.
- j) Telephones. All telephone lines are to be limited to R 200 per month and any increases required to be motivated to the Municipal Manager and cannot be more than R 500 for the month. The following land lines will have telephone limits of R 500 per month:
 - Executive Managers
 - Supply Chain Department
 - Debt Collection and Credit Control
 - Free Basic Services Department

Adopt cost containment measures in compliance to Circular 82

6. FINANCIAL IMPLICATIONS AND COMMENTS

The revised operating budget revenue estimates have increased by 7% compared to the 2021/22 original budget as adopted by Council which is attributable to the increase in the estimate of interest earned on outstanding debtors and interest earned on investments as well the funding for the Umngeni Resilience Project with the operating expenditure increasing by 1%.

The revised capital transfers have increased by 9% compared to the 2021/22 original budget as adopted by Council which is attributable to the increase the receipt of the Accelerated Water Intervention Programme Grant.

The capital expenditure has increased by 10% of which 9% relates to the revised Accelerated Water Intervention Programme and the balance of 1% relates to the acquisition of IT equipment and refurbishment of furniture and fittings.

7. RECOMMENDATIONS

It is recommended that the Executive Committee recommends to Council **THAT:**

1. Council considers the proposed adjustment budget estimates for the 2021/22 MTREF period as follows:
 - a) The proposed budget funding of **R1 246 680 542** be approved to be funded from the following:

Operating Revenue	R 409 615 121
Grant Funding	R 837 065 423
 - b) The proposed expenditure appropriations of **R 1 069 519 125** be approved and be allocated as follows:

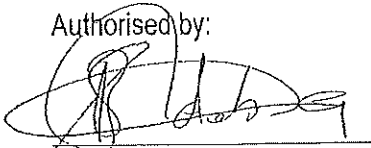
Operating Expenditure	R 855 346 956
Capital Programme	R 214 172 169
 - c) The capital expenditure programme of **R 214 172 169** be approved and funded from the following sources:

Municipal Infrastructure Grant	R 107 893 000
Water Services Infrastructure Grant	R 85 000 000
Rural Roads Assessment Management Grant	R 2 586 000
Accelerated Water Intervention Programme	R 18 000 000
Internal funding	R 693 169
 - d) The proposed revised funding allocation for UMEDA be approved at R 9 158 074 for the 2021/22 financial year to cater for the Rapid Economic Recovery Programme;
 - e) The tariff charges for water and sanitation will remain as adopted by Council in the original budget;
2. Approves that revisions be made to the 2021/22 Budget Funding Plan in line with the 2021/22 Adjustment Budget Estimates and finalised once the feedback has been received from Provincial Treasury on the assessment of the 2021/22 Adjustment Budget.

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

4. The Accounting Officer submit the 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.

Authorised by:



Mr. SB Ndabandaba
CHIEF FINANCIAL OFFICER

Approved By:



71 Dr. RMB Ngcobo
MUNICIPAL MANAGER

