City of Johannesburg Council 2025-02-27 2025-03-13

COJ : MAYORAL COMMITTEE 2025-02-20

GROUP FINANCE

55 2024/25 ADJUSTMENT BUDGET AND RELATED DOCUMENTATION

1 STRATEGIC THRUST

Good Governance
Financial Sustainability

2 OBJECTIVE

To obtain approval for the Adjustment Capital Budget for the 2024/25 financial year.

3 BACKGROUND

In terms of Section 28 of the Municipal Finance Management Act 56 of 2003 (MFMA), a municipality may revise an approved budget through an adjustments budget. Only the Mayor may table an adjustments budget in the municipal council and may only be tabled within prescribed limitations as to timing or frequency.

In terms of section 28 of the Municipal Finance Management Act, an adjustment budget, amongst others:

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, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
d) May authorise the utilisation of projected savings in one vote towards spending under another vote;
e) May correct any errors in the annual budget; and
f) May provide for any other expenditure within a prescribed framework.

In terms of the Municipal Budget and Reporting Regulations, only one adjustment budget may be tabled in Council during the financial year, after tabling of the mid–year budget and performance assessment, but not later than 28 February 2025.

MID TERM ASSESSMENT

Section 72 of MFMA also stipulates that the Accounting Officer must by 25 January of each year assess the performance of the municipality during the first half of the financial year and as part of the assessment or review recommend whether the adjustment budget is necessary.

A report on the assessment of service delivery performance is submitted separately by Group Strategy, Policy Co-ordination and Relations to Mayoral Committee and Council.

4 SUMMARY

The following items are submitted to Council in terms of section 28 of the MFMA for consideration:

- **ITEM A: 2024/25 OPERATING ADJUSTMENT BUDGET FOR THE CITY OF JOHANNESBURG**
- **ITEM B: 2024/25 CAPITAL ADJUSTMENT BUDGET FOR THE CITY OF JOHANNESBURG**
- **ITEM C: FUNDING PLAN FOR MEDIUM TERM CAPITAL BUDGET**

The contents of the above items, their recommendations, as well as the supporting documents attached hereto.

5 POLICY IMPLICATIONS

None.

6 LEGAL AND CONSTITUTIONAL IMPLICATIONS

In terms of Section 28 of the Municipal Finance Management Act 56 of 2003, a municipality may revise an approved budget through an adjustment budget for tabling at Council. Based on the content of the report, the Legal and Compliance Department is satisfied that sufficient, legally sanctioned reasons exist for the tabling of an adjustment budget in terms of Section 28 of the MFMA.

7 FINANCIAL IMPLICATIONS

It is recommended that the budget requests to adjust the Capital Budget for the 2025/26 and 2026/27 financial years be considered in conjunction with the 2025/26 – 2027/28 medium term budget process.

8 COMMUNICATION IMPLICATIONS

In terms of Section 24 of the Municipal Finance Management Act, immediately after the approval of the adjustment budget, the accounting officer must inter alia; submit the adjustment budget to National Treasury and Provincial Treasury. The adjustment budget will be placed on the City's website after the approval.

9 OTHER BODIES/DEPARTMENTS CONSULTED

Legal department, all core administration departments, and municipal entities

10 KEY PERFORMANCE INDICATOR

Management of the budget process in compliance with the Municipal Finance Management Act Chapter 4.

RECOMMENDATIONS

ITEM A: 2024/25 OPERATING ADJUSTMENT BUDGET FOR THE CITY OF JOHANNESBURG

IT IS RECOMMENDED

1. **That the Adjustment Operating Revenue and Expenditure for Core Administration and Municipal Entities as set out in Annexure A, B, C and D be approved.**

2. **That the supporting information contained in the 2024/25 Adjusted Revenue and Expenditure Budget document as required in terms of Section 17(3) of the Municipal Finance Management Act (Act 56 of 2003) be considered in conjunction with this report.**

3. **That the risks highlighted in the body of the report be noted and mitigated.**

4. **That efficiency measures to manage expenditure within the final adjusted budget allocations be continued by all Departments and Entities.**

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ITEM B: 2024/25 CAPITAL ADJUSTMENT BUDGET FOR THE CITY OF JOHANNESBURG

IT IS RECOMMENDED

1. **That the Adjustment Capital Budget for 2024/25 amounting to R7 733 417 000 as set out in Annexure A and B be approved.**

2. **The budget requests to adjust the Capital Budget for the 2025/26 and 2026/27 financial years be considered in conjunction with the medium-term budget process for 2025/26 – 2027/28.**

ITEM C: FUNDING PLAN FOR MEDIUM TERM CAPITAL BUDGET

IT IS THEREFORE RECOMMENDED

1. **Long-term Borrowing:**

   a) **That Council approves the raising of the budgeted external long-term borrowing of R2,700,000,000.00; R2,500,000,000.00 and R3,000,000,00.00 for the 2024/25, 2025/26 and 2026/27 respectively per the adjustment medium term budget using either a bilateral loan, DFI funding, bond issuance, assets backed finance, private placements or combination thereof.**

   b) **That Council approves the raising of approved budgeted borrowing or revised budget as may arise of bilateral loans from any or combination of the following financial institutions: ABSA Bank, First National Bank, Nedbank, Standard Bank and Investec; DFI funding from development institutions such as: Development Bank Of Southern Africa (DBSA), Agence Francaise De Developpement (AFD), KfW, China Construction Bank; African Development Bank (AfDB), European Investment Bank (EIB), International Finance Corporation (IFC); Asian Infrastructure Development Bank (AIIB), New Development Bank and any other financial institution procured through an official procurement process or legislative provisions.**

   c) **That Council approves the pricing of no more than 550 basis points above the government benchmark bond for long term debt for financing medium term capital budget for 2024/25 to 2026/27.**

   d) **That Council approves the exploring and executing of the long-term debt refinancing up to R5 billion for the 2024/25 financial year to lower the City's weighted cost of borrowing in line with Section 46(5) of the MFMA.**

   e) **That Council approves the utilisation of the alternative sources of funding and off-balance sheet mechanisms such as Infrastructure Funds, Land Value Capture; PPP's, Project Finance, Assets Backed Finance, ECA's, Climate Finance, and other potential funding structures to ensure funding of approved unfunded economic capital projects in the 2024/25 financial year.**

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1. **Short-term Borrowing:**

    a) **That Council notes that the short term borrowing utilised during 2023/24 was successfully redeemed before end of June 2024 in full compliance with section 45 of the MFMA**
    b) **That Council approves the utilization of the standby banking credit facility from Standard Bank of up to R675 million that is part of the current transactional banking offering during the 2024/25 financial year in line with the current extended contract expiring on 30 April 2025 or upon any future extended date(s) should any further extension(s) of the contract be granted.**
    c) **That Council approves the prudent establishment and utilization of a short-term bank facility or raising of short-term debt with any or combination of the following institutions: ABSA Bank, Rand Merchant Bank, Nedbank, Standard Bank, Investec and Development Bank of Southern Africa in the 2025/26 and 2026/27 financial years to bridge confirmed grants in each financial year,**
    d) **That Council approves the issuance of commercial paper.**
    e) **That Council approves utilisation of the new standby short-term bank facility as part of the new transactional banking contract.**
    f) **The total combination of new short-term debt/ bank facility; commercial paper issuance; and new standby short-term bank facility as part of the new transactional banking contract may not exceed R5 billion at a cost of Jibar plus up to 450 basis points in the 2025/26 and 2026/27 financial years to mend any short-term cash flow mismatches that may arise.**

2. **That Council approves the establishment of the infrastructure investment fund for trading entities as an investing mechanism to ringfence all contributions made to the fund by each trading entity from surpluses generated, with the implementation thereof to commence in the 2025/26 financial year.**

3. **That in the event of a credit rating downgrade or other event which results in capital market failure, or exceptional circumstances, the City Manager, the Group Chief Financial Officer, and the Group Head: Treasury and Financial Strategy in consultation with Group Head: Legal and Contracts Department be authorised to execute borrowing agreement and to adjust all the proposed pricing thresholds that are necessary to protect the interests of the City and to align to the new credit rating.**

4. That the City Manager, the Group Chief Financial Officer and the Group Head: Treasury and Financial Strategy be authorised by Council to negotiate, finalise and execute the terms and conditions of all agreements (loan contracts and debt capital markets listing documents) and any other documents to give effect to the external borrowing requirements or addendums to the contracts as well as for utilisation of all newly approved grant funding/ technical assistance, in consultation with the Group Legal and Contracts Department subject to such terms and conditions that are necessary to protect the interests of the City.

5. That Council authorises the City Manager to sign and execute all long-term and short-term debt agreements and related documents on both the short-term and long-term borrowing.

(GROUP FINANCE)
(Ntuthuzelo April)
(Tel. (011) 358 3290)
(tc)

THE NEXT ITEM FOLLOWS THE ANNEXURES TO THIS ITEM