

GROUP FINANCE

125 SPECIAL ADJUSTMENT OF THE OPERATING AND CAPITAL BUDGETS FOR THE 2020/21 FINANCIAL YEAR AS A RESULT OF NATIONAL AND PROVINCIAL GOVERNMENT GRANT REVIEW

1 STRATEGIC THRUST

Well Managed and Governed City.

2 OBJECTIVE

To obtain approval to adjust the current approved budget for the 2020/21 financial year.

3 SUMMARY

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 Regulation 23(2) of the Municipal Budget and Reporting Regulations, only one adjustment budget may be tabled in Council during the financial year, except when additional revenues contemplated in Section 28(2)(b) of the Act are allocated to a municipality in a national or provincial adjustment budget.

Regulation 23(3) of the Municipal Budget and Reporting Regulations states "If a national or provincial adjustment budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustment budget, table an adjustment budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues".

On 9 July 2020, the Council approved the 2020/21 operating and capital budget.

The following Government Gazettes were issued by the National and Provincial Government that was not included in the original budget that was approved by Council on 9 July 2020:

- Division of Revenue Amendment Bill (National Supplementary Budget – 24 June 2020), National Treasury adjusted the following grants:
 - Equitable share increased by R720.6 million;
 - Urban Settlement Development Grant (USDG) reduced by R180.2 million;

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- Public Transport Network Grant (Opex) reduced by R166.9 million; and
 - Energy Efficiency and Demand Side Management Grant reduced by R1 million.
- Provincial Gazette (No. 134) on 6 August 2020 whereby the Recapitalisation of Community Library Grant is reducing by R5.3 million and the Libraries Plan Grant is reducing by R1.7 million.

Municipal Standard Chart of Accounts (mSCOA)

The City is in a process of implementing new financial systems to cater for mSCOA. The approved budget of the City is still in the format of the charts of accounts of the existing financial systems. However, the City is required to report monthly on a mSCOA basis (MFMA section 71 reports) to both National Treasury and to Council. There is a need to re-alignment line items to mSCOA revenue and expenditure categories to ensure that errors identified by National Treasury are minimized. Municipalities through the recognition of revisions of grants announced on 24 June 2020 by the Minister of Finance have been given until 30 September 2020 to align their Council approved budgets with grant revisions, including the correction of data strings. The City will use this opportunity to re-alignment line items to mSCOA revenue and expenditure categories to minimized errors.

It should be noted that the City will only become fully mSCOA compliant once a new financial system has been implemented with the mSCOA imbedded in the system.

OPERATING ADJUSTMENT BUDGET FOR 2020/21

The revenue budget of the City increases by R2.1 million due to mSCOA realignments and R545.7 million due to government grant adjustments (excluding internal revenue).

The expenditure budget increases by R2.1 million due to mSCOA realignments and decreased R8 million due to government grant adjustments (excluding internal expenditure).

The net effect of the adjustments results in a surplus (before capital transfers and taxation) of R678 million compared to the approved budgeted surplus of R124.3 million.

The table below reflects the high-level summary of the adjusted revenue and expenditure budgets of the City.

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	Approved Budget 2020/21 R 000	mSCOA Re- classification R 000	Nat. or Prov. Govt R 000	Adjusted Budget 2020/21 R 000
Revenue	60 750 551	2 058	545 719	61 298 328
Internal Revenue	8 300 011		(1 000)	8 299 011
	69 050 562	2 058	544 719	69 597 339
Expenditure	60 626 223	2 058	(8 000)	60 620 281
Internal Expenditure	8 300 011		(1 000)	8 299 011
	68 926 233	2 058	(9 000)	68 919 291
Surplus (Deficit) before capital grants and contributions	124 328	()	553 719	678 047
Capital Grants and contributions	2 613 926		(180 211)	2 433 715
Surplus (Deficit) after capital grants and contributions	2 738 254	()	373 508	3 111 762
Taxation	63 409			63 409
Surplus (Deficit) after taxation and capital grants and contributions	2 674 845	()	373 508	3 048 353

The table below reflects the summary of adjustments made to the revenue categories of the budget;

Description	Current Year 2020/21			
	Approved Budget R 000	mSCOA Re- classification R 000	Nat. or Prov. Govt R 000	Adjusted Budget R 000
R thousand				
Revenue By Source				
Property rates	13 215 032			13 215 032
Service charges - electricity revenue	16 970 962	207 027		17 177 989
Service charges - water revenue	8 342 301	(707)		8 341 594
Service charges - sanitation revenue	5 191 714	()		5 191 714
Service charges - refuse	1 918 601	184 716		2 103 317
Service charges - other	657 554	(657 554)		
Rental of facilities and equipment	418 383	39 631		458 014
Interest earned - external investments	327 554	4 211		331 765
Interest earned - outstanding debtors	401 433	572		402 005
Fines, penalties and forfeits	1 058 764	66 535		1 125 299
Licences and permits	8 379			8 379
Agency services	807 851	(512 319)		295 532
Transfers and subsidies received	9 923 671	526	545 719	10 469 916
Other revenue	1 475 352	669 680		2 145 032
Gains on disposal of PPE	33 000	(259)		32 741
Revenue	60 750 551	2 058	545 719	61 298 328
Internal Transfers	8 300 011		(1 000)	8 299 011
Total Revenue	69 050 562	2 058	544 719	69 597 339

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The adjustment on the revenue is mainly as a result of the following:

- The reclassification of revenue line items in line with mSCOA requirements; and
- Transfers and subsidies received increase by R545.7 million and it relates to-
 - EISD, the Energy Efficiency and Demand Side Management Grant reduced by R1 million;
 - Transport, the Public Transport Network Grant (Opex) decreased by R166.9 million;
 - Community Development, the Recapitalisation of Community Library Grant reduced by R5.3 million and the Libraries Plan Grant reduced by R1.7 million; and.
 - Group Finance, the equitable share increased by R720.6 million.
- Internal transfers decreased by R1 million (Energy Efficiency and Demand Side Management Grant payment to City Power) on both revenue and expenditure however the bottom-line of the City is not affected.

The table below reflects the summary of adjustments made to the expenditure categories of the budget;

Description	Current Year 2020/21			
	Approved Budget	mSCOA Re-classification	Nat. or Prov. Govt	Adjusted Budget
	R 000	R 000	R 000	R 000
R thousand				
Expenditure By Type				
Employee related costs	15 982 485	(51 180)	(7 000)	15 924 305
Remuneration of Councillors	176 716			176 716
Debt impairment	5 359 258	612		5 359 870
Depreciation and asset impairment	4 449 628	31		4 449 659
Finance charges	3 034 846	12 136		3 046 982
Bulk purchases	19 333 614	(626 937)		18 706 677
Repairs and maintenance	2 006 206	(2 006 206)		
Other materials	64 251	712 829		777 080
Contracted services	4 018 958	2 025 122	(1 000)	6 043 080
Transfers and subsidies paid	56 852	1 288		58 140
Other expenditure	6 177 263	(99 548)		6 077 715
Contributions to/(from) provisions	(33 854)	33 854		
Loss on disposal of PPE		58		58
Expenditure	60 626 223	2 058	(8 000)	60 620 281
Internal Transfers	8 300 011	()	(1 000)	8 299 011
Total Expenditure	68 926 233	2 058	(9 000)	68 919 291

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The adjustment on the expenditure is mainly as a result of the following:

- The reclassification of expenditure line items in line with mSCOA requirements; and
- The expenditure related to government grant adjustments reduced by R8 million and it is due to the following adjustments:
 - Decrease in employee related cost by R7 million and it relates to Community Development whereby the Recapitalisation of Community Library Grant is reducing by R5.3 million and the Libraries Plan Grant is reducing by R1.7 million.
 - Repairs and maintenance decrease by R1 million and it relate to EISD whereby Energy Efficiency and Demand Side Management Grant is reducing by R1 million.
 - Internal transfers decreased by R1 million (Energy Efficiency and Demand Side Management Grant payment to City Power) on both revenue and expenditure however the bottom-line of the City is not affected.

The subsidies to the MEs were not adjusted and it remains as follows:

Vote	Approved Budget 2020/21	Nat. or Prov. Govt	Adjusted Budget 2020/21
	R 000	R 000	R 000
Pikitup	820 521	-	820 521
Johannesburg Roads Agency	1 243 374	-	1 243 374
Metrobus	669 859	-	669 859
Johannesburg City Parks and Zoo	951 882	-	951 882
Johannesburg Development Agency	40 627	-	40 627
Johannesburg Property Company	596 229	-	596 229
Metropolitan Trading Company	251 893	-	251 893
Johannesburg Social and Housing Company	19 900	-	19 900
Joburg City Theatres	160 454	-	160 454
Total subsidies to ME's	4 754 740	-	4 754 740

CAPITAL ADJUSTMENT BUDGET FOR 2020/21

The capital budget has been reduced by R180.2 million due to the reduction of the Urban Settlement Development Grant.

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The table below reflects the high-level summary of the adjusted capital budget for the 2020/21 financial year.

Capital	Original Budget	Adjustments	Adjustment Budget
	2020/21		2020/21
COJ - Loans	3 000 000		3 000 000
COJ - Cash	1 844 634		1 844 634
Grants and Contributions	2 613 926	(180 211)	2 433 715
Total	7 458 560	(180 211)	7 278 349

The table below reflects the adjustments made per vote and per source of finance for the 2020/21 financial year.

DEPARTMENT VOTE	2020/21 CHANGE	2020/21 - SOURCE OF FINANCE					
		COJ Funding (Loans) 350	CRR (Cash) 360	National Grant 374	Provincial Grant 375	USDG 373	Other & BSC 376
	R 000	R 000	R 000	R 000	R 000	R 000	R 000
CORE ADMINISTRATION:							
Economic Development							
Environment and Infrastructure							
Transportation							
Community Development							
Health							
Social Development							
Group Forensic Investigation Services							
Office of the Ombudsman							
City Manager							
Speaker: Legislative Arm of Council							
Group Information and Communication							
Technology							
Group Finance							
Group Corporate and Shared Services							
Housing	(44 000)					(44 000)	
Development Planning							
Public Safety							
TOTAL CORE ADMINISTRATION	(44 000)					(44 000)	
MUNICIPAL ENTITIES:							
City Power							
Johannesburg Water	(66 211)					(66 211)	
Pikitup							
Johannesburg Roads Agency	(70 000)					(70 000)	
Metrobus							
Johannesburg City Parks and Zoo							
Johannesburg Development Agency							
Johannesburg Property Company							
Metropolitan Trading Company							
Joburg Market							
Johannesburg Social and Housing Company							
Joburg City Theatres							
TOTAL ME's	(136 211)					(136 211)	
TOTAL CITY OF JOHANNESBURG	(180 211)					(180 211)	

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The following projects have been reduced to address the reduction of R180.2 million in the Urban Settlement Development Grant:

- **Housing**

The 2020/21 capital budget for Housing reduced by R44 million to R1 billion as a result of the following:

- Fleurhof Mixed Development reduced by R11 million;
- Lufhereng Mixed Development (Bulk, Link and Internal Infrastructure Roads, Storm Water Management Systems, Sewer and Water for 24 000 houses) reduced by R11 million
- Riverside View ext 28 (Diepsloot ext 12) reduced by R11 million; and
- South Hills Housing Mixed Development reduced by R11 million.

- **Johannesburg Water**

The 2020/21 capital budget for Johannesburg Water reduced by R66.2 million to R1 billion as a result of the following:

- Water Demand Management: New Operate and Maintenance Assets (Orange Farm and Soweto) reduced by R2.4 million;
- Orange Farm/Deep South: Planned Replacement Watermains reduced by R10 million;
- Northern Works: Belt Presses New #4 reduced by R10 million;
- Northern Works: Infrastructure renewal reduced by R2 million;
- Northern Works: Unit 4 liquor treatment reduced by R10 million; and
- Northern works: Unit 5 mod 2 reduced by R10 million.

- **Johannesburg Roads Agency (JRA)**

The 2020/21 capital budget for JRA reduced by R70 million to R1.1 billion as a result of the following:

- Conversion of Open Drains to underground storm water system/Covered Drains in Orange Farm reduced by R15 million;
- Tarring of Gravel Roads: Diepsloot. New Roads: Construction and Upgrades reduced by R5 million;
- Tarring of Gravel Roads: Ivory Park and Surrounding Areas reduced by R10 million;
- Tarring of Gravel Roads: Mayibuye reduced by R8 million;
- Tarring of Gravel Roads: Slovoville reduced by R25 million;
- Tarring of Gravel Roads: Tshepisoong reduced by R5 million; and
- Spencer Road New Link New Roads: Construction and Upgrades reduced by R2 million.

GROUP FINANCE**4 POLICY IMPLICATION**

None.

5 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.

6 FINANCIAL IMPLICATIONSOperating Budget

<u>Consolidated Operating Budget</u> <u>(including internal transfers)</u>	Approved Budget R 000	mSCOA Re- classification ments R 000	Nat. or Prov. Govt R 000	Adjusted Budget R 000
Total Revenue	69 050 562	2 058	544 719	69 597 339
Total Expenditure	68 926 233	2 058	(9 000)	68 919 291
Capital Grants and Contributions	2 613 926		(180 211)	2 433 715
Taxation	63 409			63 409
Surplus (Deficit) for the year	2 674 845	()	373 508	3 048 353

Capital Budget

The 2020/21 capital budget decreases by a total amount of R180.2 million from \ ... R7 458 560 000 to R7 278 349 000 as reflected in the attached Annexure A.

7 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.

8 OTHER DEPARTMENTS CONSULTED

Legal Department and affected Core administration departments and Municipal Entities.

9 KEY PERFORMANCE INDICATOR

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

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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 Adjustment Capital Budget for 2020/21 amounting to R7 278 349 000 as set out in Annexure E and F be approved.**
- 3 That the supporting information contained in the 2020/21 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.**

(GROUP FINANCE)
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(tc)

THE NEXT ITEM FOLLOWS THE ANNEXURES TO THIS ITEM