

City of Johannesburg Council 2020-02-27

COJ : MAYORAL COMMITTEE 2020-02-21

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**10 ADJUSTMENT OPERATING BUDGET FOR THE 2019/20 FINANCIAL YEAR**

**1 STRATEGIC THRUST**

Well Managed and Governed City.

**2 OBJECTIVE**

To obtain approval for the Adjustment Operating Budget for the 2019/20 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 section 28 of the Municipal Finance Management Act, an adjustment budget, amongst others:

- (1) Must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- (2) 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;
- (3) May, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- (4) May authorise the utilisation of projected savings in one vote towards spending under another vote;
- (5) May correct any errors in the annual budget
- (6) May provide for any other expenditure within a prescribed framework

In terms of 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 2020.

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#### MID TERM ASSESSMENT

Section 72 of MFMA also stipulate 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 and Relations to Mayoral Committee and Council.

Operating revenue and expenditure assessment (as at 31 December 2019)

The actual year-to-date revenue is under budget by 2% (R695 million), the actual operating expenditure is under budget by 5% (R1.5 billion). The net result is an operating surplus of R2.2 billion against a year-to-date (YTD) budgeted deficit of R79 million before capital transfers and taxation.

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Table 1: Consolidated Financial Performance as at 31 December 2019

Description	Budget Year 2019/20				
	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %
<b>R thousands</b>					
<b>Revenue By Source</b>					
Property rates	12 292 550	6 416 321	6 146 275	270 046	4%
Service charges - electricity revenue	16 888 897	8 233 629	8 856 488	(622 859)	-7%
Service charges - water revenue	7 888 696	4 041 123	3 944 349	96 774	2%
Service charges - sanitation revenue	4 692 431	2 607 994	2 346 216	261 778	11%
Service charges - refuse revenue	1 729 688	1 017 230	864 250	152 980	18%
Rental of facilities and equipment	405 054	182 836	153 001	29 834	19%
Interest earned - external investments	305 700	219 244	153 595	65 649	43%
Interest earned - outstanding debtors	371 591	203 743	169 129	34 614	20%
Fines, penalties and forfeits	1 004 523	624 790	281 426	343 365	122%
Licences and permits	7 503	4 058	3 930	129	3%
Agency services	765 608	164 639	360 809	(196 171)	-54%
Transfers and subsidies	9 037 510	7 276 577	4 350 111	2 926 466	67%
Other revenue	9 332 893	1 893 639	4 563 126	(2 669 486)	-59%
Gains on disposal of PPE	56 215	1 541	-	1 541	
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>64 778 859</b>	<b>32 887 366</b>	<b>32 192 705</b>	<b>694 661</b>	<b>2%</b>
<b>Expenditure By Type</b>					
Employee related costs	15 085 408	7 180 448	7 833 098	(652 650)	-8%
Remuneration of councillors	181 408	80 257	90 704	(10 447)	-12%
Debt impairment	4 136 711	3 074 302	1 835 097	1 239 205	68%
Depreciation & asset impairment	4 289 934	1 647 606	2 130 279	(482 673)	-23%
Finance charges	2 807 395	1 578 499	1 403 697	174 801	12%
Bulk purchases	18 393 167	9 407 247	9 761 063	(353 816)	-4%
Other materials	2 244 757	339 584	1 004 227	(664 643)	-66%
Contracted services	3 953 537	2 265 982	1 885 063	380 919	20%
Transfers and subsidies	447 548	88 460	213 776	(125 317)	-59%
Other expenditure	12 493 165	5 057 797	6 115 494	(1 057 697)	-17%
Loss on disposal of PPE	-	6 532	-	6 532	
<b>Total Expenditure</b>	<b>64 033 031</b>	<b>30 726 712</b>	<b>32 272 498</b>	<b>(1 545 786)</b>	<b>-5%</b>
<b>Surplus/(Deficit)</b>					
Capital Transfers - National or Provincial	2 745 480	1 051 964	787 147	264 816	
Capital Transfers - other	442 488	(145 789)	159 320	(305 109)	
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>3 933 796</b>	<b>3 066 829</b>	<b>866 674</b>		
Taxation	35 731	28 562	14 018	14 544	
<b>Surplus/ (Deficit) for the year</b>	<b>3 898 065</b>	<b>3 038 267</b>	<b>852 657</b>		

**OPERATING ADJUSTMENT BUDGET FOR 2019/20**

Assumptions on the adjustment budget:

## Revenue

- Revenue was adjusted where necessary in line with the mid-year operating expenditure and revenue assessment;
- Additional grant funding (both revenue and expenditure) was allocated;

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### Expenditure

- Budget reallocations up to the end of December 2019 have been taken into account;
- Reallocation between revenue and expenditure categories were allowed where bottom line is not affected;
- Expenditure was adjusted downwards to mitigate the projected reduction in revenue;
- Depreciation is allowed in line with the mid-year financial performance report;
- Internal charges adjustment between departments were allowed (bottom line is not affected); and
- The adjustment budget is not meant to address additional funding requirements and accordingly departments and municipal entities will be required to reprioritise within their existing budget allocations to address any service delivery pressure.

### Additional budget request during the adjustment budget process

Additional budget requests in excess of R2.6 billion were made by the various core departments and municipal entities within the current financial year. Due to budgetary constraints and to protect the bottom-line of Council many of the requests could not be accommodated in the adjustment budget.

It is recommended that departments and entities manage its expenditure within the adjusted budget allocation to ensure that it does not overspend its adjusted budget allocation.

### Overview of the Operating Adjustment Budget

In May 2019 Council approved operating revenue of approximately R57.5 billion and operating expenditure of approximately R56.7 billion (excluding internal transfers and taxation) for the 2019/20 financial year.

In the 2019/20 Adjustment Budget the revenue budget reduces by R520.6 million and expenditure budget reduces by R30.8 million. The net effect of the adjustments results in a surplus (before capital transfers and taxation) of R255.9 million compared to the original budgeted surplus of R745.7 million.

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Adjustments Budget - Financial Performance

The table below reflects the high level summary of the proposed adjustment budget;

	Approved Budget 2019/20 R 000	Adjust- ments R 000	Adjusted Budget 2019/20 R 000
Revenue	57 485 417	(520 606)	56 964 811
Internal Revenue	7 293 442	576 654	7 870 096
	64 778 859	56 048	64 834 907
Expenditure	56 739 678	(30 780)	56 708 898
Internal Expenditure	7 293 442	576 654	7 870 096
	64 033 120	545 874	64 578 994
<b>Surplus (Deficit) before capital grants and contributions</b>	<b>745 739</b>	<b>(489 826)</b>	<b>255 913</b>
Capital Grants and contributions	3 187 968	(22 510)	3 165 458
Surplus (Deficit) after capital grants and contributions	3 933 707	(512 336)	3 421 371
Taxation	35 731	8 358	44 089
Surplus (Deficit) after taxation and capital grants and contributions	3 897 976	(520 694)	3 377 282

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

Description	Current Year 2019/20		
	Approved Budget	Adjustments	Adjusted Budget
	R 000	R 000	R 000
<b>R thousand</b>			
<b>Revenue By Source</b>			
Property rates	12 292 550		12 292 550
Service charges - electricity revenue	16 888 897	(717 026)	16 171 871
Service charges - water revenue	7 888 696		7 888 696
Service charges - sanitation revenue	4 692 431		4 692 431
Service charges - refuse	1 729 688	100 261	1 829 949
Service charges - other	614 121	699	614 820
Rental of facilities and equipment	405 054	(12 338)	392 716
Interest earned - external investments	305 700	10 564	316 264
Interest earned - outstanding debtors	371 591	6 368	377 959
Fines, penalties and forfeits	1 004 523		1 004 523
Licences and permits	7 503	779	8 282
Agency services	765 608	13 843	779 451
Transfers and subsidies received	9 037 510	106 795	9 144 305
Other revenue	1 425 331	(30 552)	1 394 779
Gains on disposal of PPE	56 215		56 215
<b>Revenue</b>	<b>57 485 417</b>	<b>(520 606)</b>	<b>56 964 811</b>
<b>Internal Transfers</b>	<b>7 293 442</b>	<b>576 654</b>	<b>7 870 096</b>
<b>Total Revenue</b>	<b>64 778 859</b>	<b>56 048</b>	<b>64 834 907</b>

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

- Service charges – electricity revenue decreased by R717 million due to the financial impact of the changes in attainable non-technical losses. Non-technical losses will increase by 2.5% from 14.5% to 17%. The total losses are expected to increase by 2.5% from 23.5% to 26% for the financial year 2019/20 and units sold are expected to be 4.55% lower than the original approved budget.
- Service charges – refuse increased by R100.3 million due to an increase in revenue from Domestic refuse collection rounds (RCR) as well as the increase in the value of properties.
- Service charges – other increase by R699 thousand and it relates to:
  - Pikitup, due to an increase in the City's cleaning levy as a result of billing additional properties.

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- Rental of facilities and equipment decreases by R12.3 million and it relates to:
  - JOSHCO, due to lower occupancy rates and the delay in the allocation of units under management.
- Interest earned (investments and debtors) increases by R16.9 million –
  - Joburg Market, interest earned - external investments increased by R10.5 million due to the interest earned from the bank balance and buyer deposits;
  - City Power, interest earned - outstanding debtors increased by R1.6 million in line with mid-year performance; and
  - Pikitup, interest earned on outstanding debtors increased by R4.8 million in line with mid-year performance.
- Licensing and permits increased by R779 thousand –
  - EISD, licenses and permits increased by R1.1 million as a result of R100 thousand for Air Quality licenses and R1 million for Energy royalties; and
  - Health, licenses and permits decreased by R321 thousand due to a transfer of budget to internal recoveries (Core) for pest control received from departments and entities.
- Agency services increased by R13.8 million –
  - JDA, agency services increased by R3.7 million due to the increase in the number of allocated projects as confirmed by client departments; and
  - Joburg Market, agency services increased by R10.1 million due to an increase in turnover and an increased commission of 25%.
- Transfers and subsidies received increase by R106.8 million and it mainly relates to -
  - EISD, transfers and subsidies received increased by R10 million due to grant for Energy Efficiency Demand Side Management received from Department of Energy;
  - Transport Department, transfers and subsidies decreased by R16 million. The start date for implementation of Rea Vaya Phase 1C (a) was postponed due to problems with bus tender, infrastructure delays and the institutional review;
  - GCSS, transfers and subsidies decreased R1 million due to the decrease of the Infrastructure Skills Development Grant;

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- Housing, the total revenue budget is increased by R41.2 million due to the housing top structure rollover allocation from the Department of Human Settlements;
  - Development Planning, transfers and subsidies received increased by R3.6 million due to the Global Environmental Fund Donation; and
  - Public Safety: EMS, transfers and subsidies increased by R68.9 million due to an Ambulance subsidy received from Provincial Health Department for Ambulance services run on an agency basis by EMS.
- Other revenue decreases by R30.6 million and it mainly relates to –
    - Transport Department, other revenue decreased by R50.7 million due to delays in the implementation of Johannesburg International Transport Interchange (JITI) as the appointed contractor has been liquidated;
    - City Manager, other revenue increased by R1.1 million for the reinstatement of the Youth Development initiative and R780 thousand for the donations to upgrade Soweto Country Club. The funds were raised at Mayoral Golf Charity Day;
    - Development Planning, other revenue decreased by R1.1 million due to a transfer of legal fee recoveries to the Office of the City Manager;
    - City Power, other revenue decreased by R8.2 million due to the realignment of the item category allocation;
    - JRA, other revenue increased by R32 million due to increases in management fees, developers income, reinstatements and jobbings;
    - Metrobus, other revenue increased by R2.6 million due to increased bus capacity with the leasing of buses;
    - City Parks and Zoo, other revenue increased by R2.4 million in line with mid-year performance;
    - Joburg Market, other revenue increased by R2.1 million as a result of revenue to be earned from the re-introduction of food hampers by the Department of Social Development;
    - JOSHCO, other revenue increased by R450 thousand due to increase in dividend from the Madulammoho joint venture; and
    - Joburg Theatres, other revenue decreased by R12 million due to lower than budgeted revenue primarily from a shortfall in in-house productions, ticketing fees, sponsorship, management fees, special projects and the hospitality and catering department. The cost containment regulations negatively impacted the hospitality revenue from municipal clients.
  - Internal transfers increase by R576.7 million on both revenue and expenditure however the bottom-line of the City is not affected.



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

Description	Current Year 2019/20		
	Approved Budget	Adjustments	Adjusted Budget
	R 000	R 000	R 000
<b>R thousand</b>			
<b>Expenditure By Type</b>			
Employee related costs	15 085 407	217 792	15 303 199
Remuneration of Councillors	181 408		181 408
Debt impairment	4 136 711	(15 248)	4 121 463
Depreciation and asset impairment	4 289 935	(23 112)	4 266 823
Finance charges	2 807 395	227	2 807 622
Bulk purchases	18 393 191	(330 302)	18 062 889
Repairs and maintenance	2 217 414	(62 159)	2 155 255
Other materials	27 343	34 318	61 661
Contracted services	3 953 537	(63 038)	3 890 499
Transfers and subsidies paid	447 548	(70 319)	377 229
Other expenditure	5 232 584	277 683	5 510 267
Contributions to/(from) provisions	(32 796)	3 379	(29 417)
Loss on disposal of PPE			
<b>Expenditure</b>	<b>56 739 678</b>	<b>(30 780)</b>	<b>56 708 898</b>
<b>Internal Transfers</b>	<b>7 293 442</b>	<b>576 654</b>	<b>7 870 096</b>
<b>Total Expenditure</b>	<b>64 033 120</b>	<b>545 874</b>	<b>64 578 994</b>

The adjustment on the expenditure resulted from the following;

- Increase in employee related cost by R217.8 million and it mainly relates to:
  - Economic Development, employee related costs decreased by R2.6 million in line with projected expenditure;
  - EISD, employee related costs decreased by R1.6 million mainly as a result of the following:
    - R3.4 million transfer of the Infrastructure Unit to the Office of the Chief Operation Officer;
    - R2.5 million allocation for strategic appointments; and
    - R737 thousand reduction in line with midyear performance.
  - Transport Department, employee related costs decreased by R7.7 million due to the salary adjustment effected in line with midyear performance;
  - Community Development, employee related costs increased by R6.5 million due to an additional budget allocation of R15 million for operational costs for new libraries and budget transfer from GCSS of R7.8 million for the intake of general workers (Midrand) offset by budget re-allocation to other expenditure (R4 million) and budget decrease in line with midyear performance (R12.3 million);
  - Health, employee related costs increased by R28.5 million mainly as a result of the following:

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- R17.5 million transfer from other expenditure to cater for the Jozi Ihlomile HIV and Aids Programme;
- R20.3 million allocation for strategic appointments;
- R2.7 million allocation for insourcing of cleaners; and
- R12 million reduction in line with midyear performance.
- Social Development, employee related costs increased by R2.2 million as a result of R2.5 million for strategic appointments and a reduction of R343 thousand in line with midyear performance;
- GFIS, employee related cost increased by R16 million due to movements of funds between line categories in order to cover shortfall and to fill open critical positions in order to capacitate its structure. The R3.1 million savings reduced in line with mid-performance and in line with midyear performance;
- Ombudsman, employee related cost increased by R1 million in order fill open critical positions to capacitate its structure;
- City Manager, employee related costs decreased by R77.9 million due to movements of funds between line categories and in line with midyear performance. There was transfer of R23 million from Group Corporate and Shared Services to fill strategic positions and R5.1 million of transfer of Infrastructure Planning and Coordination Office from Environment & Infrastructure Services in line with the Budget Management Policy to the Office of the Chief Operating Officer and R5 million was transferred from Citizen Relations and Urban Management (CRUM) to Johannesburg City Parks and Zoo for grass cutting blitz;
- Speaker, employee related cost increased by R3.7 million in order fill open critical positions to capacitate its structure;
- GICT, employee related cost increased by R21.1 million due to funding required to capacitate the Department in order to avoid reliance on consultants (R32.7 million) offset by budget reduction in line with midyear performance (R11.6 million);
- Group Finance, employee related costs decreased by R17.3 million. The R8.6 million was transferred from Group Corporate Shared Services to fill strategic positions. The R11.7 million was transferred between line categories, further reduction of R37 million in line with mid-performance and in line with midyear performance;
- GCSS, employee related costs decreased by R131.6 million due to the transfer of (R115.6 million) for strategic appointment funding to the various Departments and Entities, transfer of (R7, 8 million) to Community Development and a budget transfer to the Entities for the insourcing of security guards (R8.2 m);
- Housing, employee related cost decreased by R2.2 million in line with the projected expenditure based on the mid-year performance and a reallocation of R64 thousand from Group Corporate and Shared Services for the internship program;

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- Development Planning, employee related costs decreased by R13 million being identified savings (R3.5 m) and budget adjustment in line with midyear performance (R9.5 million);
- Public Safety: HO, employee related costs increased by R14.3 million due to a R14.2 million allocated for the employment of 100 operators for the Integrated Intelligence Operational Centre (IIOC) and a R125 thousand reallocation to align the approved budget to the appropriate expenditure line items;
- Public Safety: JMPD, employee related costs decreased by R42.1 million due to the R201 million transferred to entities to manage their security services, the R192 million salary adjustment in line with projected savings, and the increase for the security insourcing shortfall of R48.5 million, R205.8 million compensation for excessive hours worked in the previous 17 months, and R96.8 million for projected overtime costs to June 2019;
- City Power, employee related costs increased by R11.7 million mainly as a result of the following:
  - R7.7 million for strategic appointments;
  - R30.1 million for insourcing of security officers; and
  - R26.1 million reduction in line with midyear performance.
- JHB Water, employee related costs increased by R49.6 million mainly as a result of the following:
  - R3.9 million for strategic appointments;
  - R32.2 million for insourcing of security officers;
  - R7.7 million for insourcing of cleaners; and
  - R5.7 million to cater for 0.5% salary increase.
- Pikitup, employee related costs increased by R25 million mainly due to the following:
  - R3.1 million for strategic appointments;
  - R37.7 million for insourcing of security officers;
  - R483 thousand for insourcing of cleaners;
  - R9.1 million to cater for the implementation of the increase in working days from 3 to 5 days a week; and
  - R25.4 million reduction in line with midyear performance.
- JRA, employee related cost increased by R34.4 million due to the security insourcing transfer of R21.2 million from JMPD, strategic vacancies of R7 million, and R6.1 million transferred from contracted services for the insourcing of cleaning services;
- Metrobus, employee related cost increased by R38.4 million for security insourcing and the filling of critical vacancies. This included a R12.5 million allocation for the security services shortfall and a projected R12.6 million saving on salaries in line with midyear performance;
- City Parks and Zoo, employee related costs increased by R45.1 million mainly due to the following:
  - R45.2 million for insourcing of security officers,
  - R15.7 million for insourcing of cleaners; and

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- R15.8 million reduction in line with midyear performance.
  - JDA, employee related costs decreased by R53 thousand mainly due to a budget movement from internal charges for the insourcing of cleaning services (R1.5 m) offset by a R1.5 million adjustment in line with midyear performance;
  - JPC, employee related cost increased by R158.5 million due to the allocation of R154.2 million for the insourcing of 1277 cleaners, R57.9 million for the insourcing of security services, a R59.8 million reduction as per the projected savings in line with midyear performance, and the allocation of R3.7 million and R2.5 million for the insourced cleaners protective clothing and the strategic appointments respectively;
  - Joburg Market, employee related costs increased by R18.4 million due to an additional R10.1 million for the insourcing of cleaning services, R9.4 million for the filling of critical vacancies, R1.6 million strategic allocation, a R3 million reduction in line with projected savings and R200 thousand for the security services insourcing shortfall.
  - JOSHCO, employee related costs increased by R34.4 million due to the R16.3 million shortfall on security services, the R24.1 million shortfall on cleaning services and a reduction of R6.1 million projected savings in line with midyear performance; and
  - Joburg Theatres, employee related costs increased by R5.3 million due to the insourcing of security guards (R3.6 million) and cleaning services (R2.8 million) offset by a (R1.1 m) budget adjustment in line with midyear performance;
- The provision for debt impairment increases by R15.3 million.
    - City Manager, debt impairment increased by R1.1 from Development Planning for cost that relates to legal cost;
    - Housing, debt impairment increased by R15.3 million due low collection levels as a result of the adverse economic conditions and a high unemployment rate;
    - Development Planning, Debt impairment decreased by R1.3 million due to a transfer of provision to the Office of the City Manager;
    - City Power, debt impairment decreased by R106 million in line with mid-year performance;
    - Pikitup, debt impairment increased by R64.5 million in line with mid-year performance; and
    - JOSHCO, debt impairment increased by R11 million due low collection levels as a result of the adverse economic conditions and a high unemployment rate.
  - Depreciation in total reduces by R23.1 million, however there were adjustments made within the budgets of the various departments and municipal entities in line with mid-year performance;

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- Finance charges increase by R227 thousand and it mainly relates to:
  - Social Development, finance charges increased by R20 thousand due to a transfer from other expenditure to cater for adhoc interest incurred on Eskom and Telkom accounts;
  - City Manager, finance charges increased by R2 thousand due to movements of funds between line categories to pay interest charges for Telkom; and
  - Public Safety: EMS, Finance charges increased by R205 thousand as a result of a reallocation to facilitate interest payment.
  
- Bulk purchases decrease by R330.3 million –
  - City Power, bulk purchases decreased by R330.3 million mainly as a result of the following:
    - R226 million refund from Eskom due to billing inaccuracies for the past financial year which has resulted in slightly lower unit price;
    - R54.3 million reduction due to a decrease in units purchased for the 2019/20 financial year; and
    - R50 million reduction in line with midyear performance.
  
- Repairs and maintenance decrease by R62.2 million and it mainly relates to -
  - Economic Development, repairs and maintenance increased by R5.5 million for the establishment and the repair and maintenance of the opportunity centres;
  - EISD, Repairs and maintenance decreased by R500 thousand due to a transfer of budget to contracted services to cater for the implementation of the Climate Action Plan;
  - Transport Department, repairs and maintenance reduced by R8.3 million allocated to internal charges;
  - City Manager, repairs and maintenance decreased by R149 thousand due to movements of funds between line categories;
  - Speaker, repairs and maintenance increased by R2.5 million in order to maintain councillors' offices;
  - GCSS, repairs and maintenance increased by R2 million due to the upgrading of the ablution facilities at the Metro Centre B-block;
  - Public Safety: HO, Repairs and maintenance increased by R2.6 million due to a re-allocation to correct repairs and maintenance of buildings expenditure line item;
  - Public Safety: EMS, repairs and maintenance decreased by R2.5 million as a result of a reallocation to other expenditure to pay the penalty for the occupation of the Protea Glen Fire station without the occupation certificate;

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- City Power, Repairs and maintenance decreased by R40 million due to additional R10 million to cater for the Energy Efficiency and Demand Side Management Programme and R50 million reduction in line with midyear performance;
  - JHB Water, repairs and maintenance decreased by R31.5 million due to the mSCOA realignment of the item category allocation;
  - JRA, repairs and maintenance decreased by R1.6 million due to JRA moving to a new building that currently does require refurbishments;
  - Metrobus, repairs and maintenance increased by R41.9 million additional budget required to perform the basic repairs that were not done over a long time and these include entrances, security facilities, booms, resurfacing of all depots repair to roofs;
  - City Parks and Zoo, repairs and maintenance increased by R3 million for repairs on dilapidated Zoo infrastructure and general maintenance;
  - JPC, Repairs and maintenance increased by R2.5 million due to commitments for lift maintenance at the various corporate buildings; and
  - JOSHCO, repairs and maintenance reduced by R37.6 million due to re-allocation of insourced security and cleaning services costs to internal charges and the reduced number of projects under management requiring maintenance.
- Other materials increase by R34.3 million mainly due to the following:
    - Community Development, other materials decreased by R14.6 million due to a budget movement to other expenditure as a result of a budget correction;
    - Public Safety: EMS, other materials reduced by R106 thousand allocated to other expenditure;
    - JHB Water, other material increased by R31.5 million due to the mSCOA realignment of the item category allocation; and
    - JPC, other materials increased by R30.2 million for the purchase of cleaning materials to be utilised at the various sites where cleaners have been insourced.
  - Contracted services decrease by R63 million mainly due to the following:
    - Economic Development, contracted services decreased by R3.5 million transferred to repairs and maintenance for the maintenance of the opportunity centres;
    - EISD, contracted services decreased by R9.6 million mainly as a result of the following:
      - R10.2 million budget transfer of the Infrastructure Unit to the Office of the Chief Operation Officer;
      - R500 thousand transfer from repairs and maintenance; and
      - R100 thousand additional allocation to cater for the Climate Action Plan.

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- Transport Department, contracted services increase by R17.7 million resulting from the R19.8 million additional funding for the two Rea Vaya bus operating companies due to escalations in fee per/km, and a R2 million reallocation to other expenditure;
- Community Development, contracted services decreased by R1.6 million mainly as a result of a movement to internal charges for the insourcing of cleaning services off-set by a budget movement from other expenditure for fleet lease;
- Health, contracted services decreased by R2.5 million due to a transfer to employee related costs for insourcing of cleaners;
- Social Development, contracted services decreased by R1.2 million due to a transfer to internal charges (ME's) for insourcing of cleaners;
- GFIS, contracted services decreased by R27.5 million due to movements of funds between line categories and R250 thousand was transferred to capex;
- Ombudsman, contracted services decreased by R300 thousand to finalize the insourcing of cleaners;
- City Manager, contracted Services increased by R4 million required to cover costs relating to fleet and cleaning services;
- Speaker, contracted Services decreased by R4.8 million to cater for the insourcing of cleaners;
- GICT, contracted services decreased by R506 thousand due to reallocation to other expenditure (R430 thousand) and transfer to internal charges for the insourcing of cleaning (R76 thousand);
- Group Finance, Contracted Services decreased by R3.9 million to finalize the insourcing of cleaners;
- GCSS, contracted services decreased by R4 million due to a budget reallocation for the upgrading of ablution facilities at the Metro Centre (R2m) and a transfer for bursaries to other expenditure (R2m);
- Housing, contracted services increased by R40 million due to a R10 million re-allocation from other expenditure for Business Advisory forensic investigations and a R30 million allocation for the hostel intervention.
- Development Planning, Contracted services decreased by R800 being identified savings;
- Public Safety: HO, contracted services increased by R4.2 million due to a reallocation to align the approved budget to the appropriate expenditure line items. The budget was not split accordingly it was capture at a high level only;
- Public Safety: EMS, contracted Services decreased by R15.4 million as a result of a R6.8 million reallocation to other expenditure stores and materials and finance charges, and a projected saving of R8.8 million;
- Public Safety: JMPD, contracted Services decreased by R63.7 million as a result of the R50 million savings on the speed contract that is not yet finalized, and a R13.7 million transfer to internal charges for cleaning services;

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- JPC: Portfolio, contracted services decreased by R14.4 million for the insourcing of cleaning services;
  - City Power, contracted services decreased by R40 million in line with midyear performance;
  - JHB Water, contracted services increased by R16.1 million as a result of a transfer of R7.7 million to employee related costs for insourcing of cleaners as well as the transfer of R23.1 million from other expenditure due to the mSCOA realignment of the item category allocation;
  - Pikitup, contracted services increased by R21.8 million mainly due to a transfer of R320 thousand to employee related costs for insourcing of cleaners; and additional R22.1 million to cater for fleet costs as most vehicles are beyond their economic lifespan and are costly to maintain, which results in additional adhoc vehicles being hired to maintain service delivery;
  - JRA, contracted services increased by R25.9 million to appoint contractors for pothole patching, curb maintenance and storm water inlet cleaning after the summer rains. Fleet costs and insurance premiums have also increased;
  - Metrobus, contracted services increased by R13.4 million mainly to procure the SAP system. The entity identified several challenges on the use of the current oracle financial system;
  - City Parks and Zoo, contracted service increased by R8.8 million due to the increase in fleet premiums in terms of new insurance contract and new fleet;
  - JDA, contracted services increased by R1.3 million due to additional audit and process management projects that need to be completed in the current financial year;
  - JPC, contracted services decreased by R17.8 million as a result of a re-allocation of JPC cleaning contracted services to cover the cleaning insourcing, amount re-allocated to other materials and salaries;
  - Joburg Market, contracted services decreased by R5.6 million due to the re-allocation to cleaning insourcing and filling of vacancies; and
  - Joburg Theatres, contracted services increased R15 thousand mainly due to re-allocation of budget to contracted services (R760k) off-set by a transfer out of R745k to employment costs for insourcing of cleaning.
- Transfers and subsidies paid decreases by R70.3 million and it mainly relates to:
    - Economic Development, transfers and subsidies paid were reduced with R9 million. This included a R6.2 million reallocation to other expenditure for the opportunity centres and R2.7 million transferred to repairs and maintenance and internal charges;



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- Transport Department, transfers and subsidies paid reduced by R103 million due to the postponement of the start date of the Rea Vaya Phase 1 (c) implementation as a result of problems with the bus tender, infrastructure delays and the institutional review;
  - City Manager, transfers and subsidies paid increased by R780 thousand to mitigate increase in revenue for the donations to upgrade Soweto Country Club as the funds were raised at Mayoral Golf Charity Day; and
  - Housing, transfers and subsidies paid increased by R41.2 million in line with the subsidy rollover from the Department of Human Settlements.
- Other expenditure increases by R277.7 million mainly due to the following:
    - Economic Development, other expenditure increased by R3.1 million as a result of the R6.2 million reallocation from Transfers and Subsidies and R3.1 million reduction in internal charges to JPC;
    - EISD, other expenditure decreased by R47 thousand due to the transfer of the Infrastructure Unit to the Office of the Chief Operation Officer;
    - Transport Department, other expenditure increased by R39.6 million due to an additional R25.1 million for expenditure related to the insourcing of cleaning and for the payment of legal expenses, a R12.5 million transfer from other materials and a R2 million reallocation from contracted services.
    - Community Development, other expenditure increased by R9 million due to budget transfers from other materials (R14.7 million) and employee related costs (R4 million) offset by budget transfers out to internal charges (Arts Alive hosted by Joburg City Theatres) (R8.7 million) and contracted services for fleet leases (R1 million);
    - Health, other expenditure decreased by R16.8 million due to a transfer of R17.5 million to employee related costs to cater for the Jozi Ihlomile Programme, and additional allocation of R676 thousand for cleaning materials;
    - Social Development, other expenditure decreased by R20 thousand due to a transfer to finance charges to cater for adhoc interest incurred;
    - GFIS, other expenditure increased by R6.9 to cover shortfall of rent to the amount of R5 million at SAPPI Building, R850 thousand for electronic scanning of case files and R600 thousand to provide tools of trade such as cell phones for the newly appointed employees;
    - City Manager, other expenditure increased by R19.1 million due to movements of funds between line categories in order to cover a shortfall of rent at SAPPI building, medical examinations, printers and stationery;
    - Speaker, other expenditure decreased by R2.2 million due to movements of funds between line categories;
    - GICT, other expenditure increased by R430 thousand due to transfer from contracted services for sundry expenses;

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- Group Finance, other expenditure decreased by R12.5 million due to movements of funds between line categories;
- GCSS, other expenditure increased by R47.9 million due to SALGA subscriptions for FY 18 /19 and FY 19 / 20 (R32.9 million), increase in workmen's compensation as a result of insourcing of security guards (R8.2 m), transfer from the Office of the Mayor (R200 thousand), budget re-allocation for the awarding of bursaries (R2 million) and licence and support charges for the new workmen's compensation system (COID) (R4.6 million):
- Housing, other expenditure reduced by R10 million reallocated to contracted services;
- Development Planning, other expenditure increased by R1.8 million in line with the mid-year budget performance;
- Public Safety: HO, other expenditure decreased by R6.9 million due to a reallocation to align the approved budget to the appropriate expenditure line items - budget not split accordingly, captured at high level only;
- Public Safety: EMS, other expenditure Increased by R54.2 million due to a R15.8 million reallocation, a R106 thousand transfer from other materials and R38.2 million to defray the prior year consumables incorrectly classified as assets;
- Public Safety: JMPD, other expenditure increased by R50 million as a result of a R57 million increase in postage fees for traffic notices and citations, and a R7 million reallocation to EMS stores and material;
- City Power, other expenditure decreased by R47.5 million mainly as a result of the following:
  - R45 million savings on guarding of property;
  - R7.5 million increase to cater for security supplies; and
  - R10 million reduction in line with midyear performance.
- JHB Water, other expenditure decreased by R16.1 million mainly as a result of the following:
  - R5.1 million reduction due to savings on guarding of property;
  - R8.9 million increase to cater for security supplies;
  - R1.9 million increase to cater for cleaning materials; and
  - R21.6 million transfer to contracted services due to the mSCOA realignment of the item category allocation.
- Pikitup, other expenditure increased by R56.2 million mainly due to the following:
  - R5 million savings on guarding of property;
  - R18.9 million for security costs incurred;
  - R3.7 million for tools & equipment;
  - R14 million for a Reaction Unit to manage vagrants at high risk landfill sites;
  - R18 million to cater for the Kleena Joburg campaign; and
  - R6.7 million for staff uniform and protective clothing (PPE).

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- JRA, other expenditure increased by R19.2 million due to the R16.1 million increase in material costs for pothole & road surfacing and R2.3 million for insourced security services;
  - Metrobus, other expenditure increased by R30.3 million mainly on diesel & oil, hire and maintenance equipment, uniform and safety clothing, and software licensing;
  - City Parks and Zoo, other expenditure increased by R15.1 million mainly due to the following:
    - R2.3 million savings on guarding of property;
    - R8.3 million savings on cleaning of buildings;
    - R11.3 million for security supplies;
    - R3.9 million for cleaning materials;
    - R2.4 million for the short hole borer beetle treatment;
    - R5 million for the grass cutting blitz programme; and
    - R3 million to cater for water utility charges.
  - JDA, other expenditure increased by R2.7 million due to information technology system upgrades (R2.3 million) and transfer from internal charges for insourcing of security services (R375 k);
  - JPC, other expenditure increased by R19.2 million as a result of a R12.8 million increase in general expenses and R6.4 million allocation for the insourced security staff;
  - Metropolitan Trading Company, other expenditure increased by R40 thousand to cover cost relating to ICT services for Public Safety Head Office;
  - Joburg Market, other expenditure increased by R13.5 million due to a R20.3 million increase for utilities and bank charges, a R1.1 million increase for cleaning services other expenditure, R22 thousand in respect of other expenditure security services and an R8 million budget reduction transferred to salaries for cleaning insourcing;
  - JOSHCO, other expenditure increased by R4.5 million mainly to provide for security charges and cleaning services; and
  - Joburg Theatres, other expenditure decreased by R3.3 million due to incoming expenditure, namely, security services (R914 thousand) and Arts Alive (R8.6 million) off-set by decrease in in-house production and ticket fees (R8 million), transfer of cleaning budget (R1.4 million) and general decrease in other expenditure (R3.4 million) as a result of the decrease in revenue (in line with Section 28 of the MFMA).
- Contributions to provisions increase by R3.4 million (Pikitup) in line with mid-year performance.

## 10.20

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The subsidies to the MEs were adjusted by R133 million and are as follows:

Vote	Approved Budget 2019/20	Adjust- ments	Adjusted Budget 2019/20
	R 000	R 000	R 000
Pikitup	569 198	17 829	587 027
Johannesburg Roads Agency	1 154 615	21 916	1 176 531
Metrobus	571 270	70 183	641 453
Johannesburg City Parks and Zoo	841 463	34 282	875 745
Johannesburg Development Agency	38 524	-1 343	37 181
Johannesburg Property Company	519 984	-20 868	499 116
Metropolitan Trading Company	240 661	-	240 661
Johannesburg Social and Housing Company	20 567	9 110	29 677
Joburg City Theatres	118 779	1 849	120 628
Total subsidies to ME's	4 075 061	132 958	4 208 019

#### Risk and Mitigation

##### Potential Risk

- Under performance on revenue.
- The reduction in surplus within the budget of City Power.

##### Mitigation action

- Departments and entities must introduce efficiency measures within the existing budget to absorb any possible shortfalls; and
- City Power should make a concerted effort to increase surpluses in order to mitigate the risk of CoJ capital funding over the medium-term;

#### 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.

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### 6 FINANCIAL IMPLICATIONS

<u>Consolidated Operating Budget</u> <u>(including internal transfers)</u>	Approved Budget R 000	Adj- ments R 000	Adjusted Budget R 000
Total Revenue	64 778 859	56 048	64 834 907
Total Expenditure	64 033 120	545 874	64 578 994
Capital Grants and Contributions	3 187 968	(22 510)	3 165 458
Taxation	35 731	8 358	44 089
Surplus (Deficit) for the year	3 897 976	(520 694)	3 377 282

### 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, All 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.

## **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 2019/20 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.**

(COJ LEGISLATURE)

(tc)

THE NEXT ITEM FOLLOWS THE ANNEXURES TO THIS ITEM