

ITEM: SPECIAL ADJUSTMENT BUDGET 2019/2020: FINANCIAL YEAR

Purpose

To submit a special adjustment budget to adjust the revenue and expenditure pertaining to the impact of the COVID-19 pandemic in terms of Government Gazette No.43181, dated 30 March 2020, 3(2).

Background

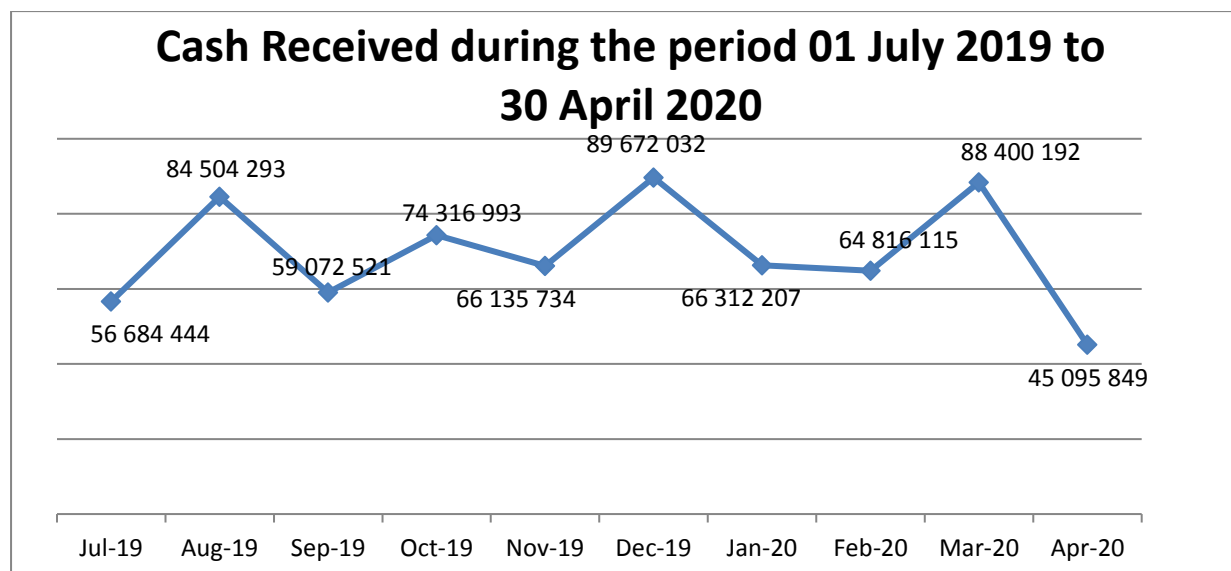
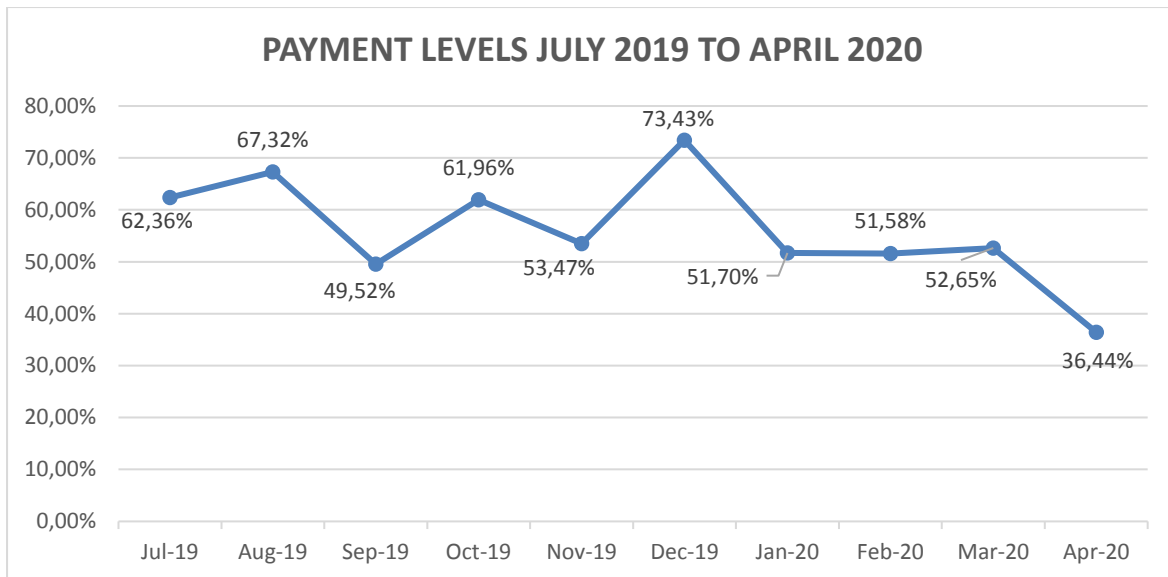
On 26 March 2020 the President declared a National State of Disaster in South Africa. Subsequently on 26 March 2020, the President announced a nationwide lockdown for the initial period of 21 days, which commenced on the 27 March 2020. The lockdown was further extended by two weeks until 30 April 2020 after which the risk level adjustments commenced to Level 4. Government had to act swiftly to minimize the economic impact of the pandemic, this implied the redirection of resources.

Discussion

The declaration of the National State of Disaster and subsequent lockdown seriously impacted on the municipal budget. The municipality was required to immediately put systems in place to adhere to the regulations pertaining to the provision of PPE as well as well as related expenditure pertaining to sanitization and the provision of essential services such as water and sanitation, waste management and electricity. No provision was made for such expenditure and therefore expenditure in this regard needs to be appropriated in a special adjustment budget.

In terms of the provision of section 3(2) of Regulation 429 of 30 March 2020, Local Government Municipal Finance Management Act, 2003 exemption from Act and Regulation, Municipal councils may pass a special adjustment budget before the end of 2019/2020 municipal financial year to authorize all expenditure linked to the emergency to address the COVID 19 pandemic.

The lockdown also has a serious impact on the collection rate for municipal services due to the fact that most businesses were closed and many people did not receive salaries at month-end or experienced pay cuts. Many people also lost their jobs in this period. The tables below indicate the **loss of revenue** due to the reduced payment levels.



Merafong submitted a business plan amounting to R10m to CoGTA to access a Disaster management relief grant to fund the additional expenditure pertaining to the COVID-19 pandemic. National Government has approved a grant of R596 000.00 as per their correspondence of 29 April 2020.

In terms of section 28(1)(2) (a) and (b) of the Municipal Finance Management Act, 56 of 2003, a municipality may revise an approved annual budget through an adjustment budget which must adjust the revenue and expenditure estimates downwards if there is material under collection of revenue during the current year and may appropriate addition revenues that have become available.

The revenue and expenditure performance as at end April was assessed and it was identified that the revenue budget needs to be adjusted due the under collection as a result of the COVID 19 lockdown. Furthermore the additional revenue from the Disaster relief grant must be appropriated in a special adjustment budget. The main items adjusted in the **revenue budget** are as follows:

REVENUE

Interest Earned: Outstanding Debtors

An adjustment is proposed on the revenue budget for Interest earned on outstanding debtors amounting to R10 446 001. The low collection rate and the increase of outstanding debtors has resulted in an increase of 7.45% on the total budgeted amount. The reason for the increase is attributed to the businesses that were closed during the lockdown from 27 March 2020 and the effect thereof on the collection rate. The provision for interest will however not necessarily result in cash.

Fines

A downward adjustment is proposed on the revenue budget for fines amounting to R2 767 259. The main reason for the negative trend is the fact that traffic law enforcement was engaged in the enforcement of the lockdown regulations and could not do normal traffic law enforcement, which resulted in a reduction of traffic fines.

Licenses and Permits

An adjustment is proposed on the revenue budget for licenses and permits amounting to R13 901 322. The municipality has reached an agreement with the Gauteng Department of Transport to set off the amount due to the department from the collections, based on the 80/20% current contract. This was not taken into account in the previous adjustment budget and needs to be corrected. The licensing offices are also closed during the lockdown period.

Transfers recognized - operational (Government Grants and Subsidies)

An adjustment is proposed on the revenue budget for transfers amounted to R596 000 in respect of the disaster relief grant.

The following table is a summary of the proposed revised revenue budget by source.

SUMMARY REVISED BUDGET 2019'20										
Description	A4	Budget Year 2019/20	Special Revised Budget 2019'20 (November 2019)	REVISED BUDGET 2019'20	PROJECTION 12 MONTHS	SPECIAL REVISED BUDGET COVID-19	Increased/Decreased	%	Budget Year +1 2020/21	Budget Year +2 2021/22
Revenue By Source										
Property rates	200	-536 695 725	-515 992 152	-515 992 152	-515 992 152	-515 992 152	0	0.00%	-568 897 469	-603 031 308
Service charges - electricity re	300	-267 583 558	-267 583 558	-269 966 558	-269 834 418	-269 966 558	0	0.00%	-283 638 804	-300 657 133
Service charges - water revenue	400	-362 741 636	-326 482 203	-326 696 203	-326 828 753	-326 696 203	0	0.00%	-384 506 133	-407 576 502
Service charges - sanitation re	500	-55 902 647	-60 640 317	-59 996 317	-59 996 803	-59 996 317	0	0.00%	-59 256 806	-62 812 213
Service charges - refuse revenue	600	-62 230 912	-70 794 744	-65 940 744	-65 940 794	-65 940 744	0	0.00%	-65 964 766	-69 922 653
Rental of facilities and equipment	800	-2 495 153	-2 495 153	-2 397 153	-2 397 513	-2 397 153	0	0.00%	-2 644 861	-2 803 554
Interest earned - external investment	900	-8 870 504	-8 870 504	-8 870 504	-8 870 504	-8 870 504	0	0.00%	-9 402 734	-9 966 898
Interest earned - outstanding	1000	-113 559 404	-135 822 933	-140 173 933	-150 619 934	-150 619 934	-10 446 001	7.45%	-120 372 968	-127 595 346
Fines, penalties and forfeits	1200	-7 435 495	-7 435 495	-7 463 495	-4 696 236	-4 696 236	2 767 259	-37.08%	-7 881 625	-8 354 524
Licences and permits	1300	-17 382 322	-17 382 322	-13 901 322	-17 382 322	0	13 901 322	-100.00%	0	0
Transfers and subsidies	1500	-233 421 750	-233 421 750	-244 111 750	-244 707 750	-244 707 750	-596 000	0.24%	-107 143 745	-119 156 400
Other revenue	1600	-6 429 092	-6 429 092	-6 344 092	-6 344 018	-6 344 092	0	0.00%	-6 814 838	-7 223 730
Gains on disposal of PPE										
Total Revenue		-1 674 748 198	-1 653 350 223	-1 661 854 223	-1 673 611 197	-1 656 227 643	5 626 580	-0.34%	-1 616 524 749	-1 719 100 261

EXPENDITURE

Due to the fact that expenditure on a national disaster could not have been foreseen when the budget was approved, the expenditure budget also needs to be adjusted due to unforeseen expenditure as well as the impact of under collection.

It is proposed that the expenditure budget be adjusted as follows:

Employee related cost

The total expenditure for salaries was R272,4m for the ten months under review which is 9.84% less than projected. During the original adjustment budget, provision was made for critical positions to be filled. Due to the financial situation of council and the fact that Government announced a nationwide lockdown at end March, vacancies could not be filled resulting in a saving R23m. It is therefore proposed that the budget be revised to R339 651 354.

Contracted Services

The expenditure on contracted services for the ten months under review was R42 098m. This represents an underspending of 41.30% on the budget. The main reasons for the variance are unpaid creditors and underspending due to the municipality's cash flow constraints. It is therefore proposed that the budget be revised to R70 519 180.

Transfer to Reserves (Provision for Bad Debt)

The budgeted payment levels for the 2019/2020 financial year is 68.00%. The actual average payment level for the 10 months is 55.84%. The projected payment levels based on the April and May revenue received, which was severely impacted by the national lockdown, is 52% average for the year. The provision for bad debt must therefore be increased from R437 588 420 to R500 189 712.

Other Expenditure

The expenditure on Other Expenditure for the ten months under review was R43 484 924m. This represents an under spending of 28.31% on the budget. The main reasons for the variance are unpaid creditors and underspending due to the municipality's cash flow constraints. The municipality also had to incur costs pertaining to PPE, sanitizers and cleaning materials as well as expenditure pertaining to the provisions of Water and Sanitation services, this expenditure was not originally budgeted for.

The table below is a breakdown of the expenditure on COVID-19 for April and May 2020.

COVID 19 Purchases		MARCH 2020 TO MAY 2020			MERA FONG MUNICIPALITY	
Date	Order Number	Item Requested	Quantity Requested	Quantity Ordered	Quantity Received	Amount
2020-03-31	minatlou Trading 652cc (342894)	surgical mask	1000	1000	1000	R28 900.00
2020-03-31	Lerula Construction & Projects0(342893)	gloves and cleaning materials	1060	1060	1060	R7 900.00
2020-03-30	minatlou Trading 652 cc(342888)	cleaning materials	51	51	51	R10 734.35
2020-03-18	change a Person (342854)	gloves and musks (3000 +4000)	7000	7000	7000	R28 000.00
2020-03-18	petty cash	pump preassure sprayer and 2litres bl	6	6	6	R623.94
2020-03-20	petty cash	Spray Bottles-varaity	19	19	19	R443.75
2020-03-20	petty cash	Spray Bottles-varaity	30	30	30	R748.50
2020-03-20	petty cash	pump preassure sprayer	3	3	3	R809.97
2020-03-23	petty cash	savlon antiseptic liquid 750ml and jik 7	14	14	14	R441.26
2020-03-23	petty cash	Spray Bottles-varaity	55	55	55	R1 342.50
	petty cash	lifebouy soaps	120	120	120	R624.00
2020-03-26	Komtseng Construction and Projects CC (3428	Surgical Gloves	4000	1000	1000	R3 200.00
		Spray Bottles	100	100	100	R7 000.00
	Minatlou Trading 652 CC (342876)	Surgical Masks	4000	1000	1000	R28 900.00
2020-03-26	YSF Chicco Trading Enterprise (342881)	Refuse Bags	15000	15000	15000	R25 875.00
2020-03-30	Jack's Paints (342892)	Hand Sanitizer	25L	25L	25L	R2 070.00
2020-03-26	Lefes trading (342890)	Bleach 25L	11	11	11	R5 280.00
2020-04-09	YSF Chicco Trading (342907)	Surgical Gloves	1500	1500	500	R6 300.00
2020-04-09	BIGTym Trading (342896)	Heavy Duty Gloves	1008	1008	1008	R25 629.91
2020-04-15	YSF Chicco Trading (342911)	Toilet papers	4400	4400	4400	R4 700.00
2020-04-09	BIGTym Trading (342897)	Surgical Gloves	1000	1000	1000	R3 927.28
2020-04-09	Lefes trading (342906)	Surgical Masks	1000	1000	1000	R28 750.00
2020-04-09	Giya Dlozi Projects (342899)	Surgical Masks	1000	1000	1000	R29 325.00
2020-05-12	Dee Jay Pharmacy (342942)	Infra Red Thermometer	10	10	10	R16 005.00
PROCUREMENT OF GOODS AND SERVICE FOR OTHER DEPARTMENTS						
2020-03-24	Teloc Waste Management (342869)	Jet Vacuum Truck	3days	3 days	3days	R30 360.00
2020-03-25	Bashise Trading (342870)	Honey Sucker Truck	3 days	3days	3days	R22 950.00
2020-03-27	Teloc Waste Management (342886)	Jet Vacuum Truck	3days	3 days	3days	R30 360.00
2020-03-27	Teloc Waste Management (342885)	Jet Vacuum Truck	3days	3 days	3days	R30 360.00
2020-04-02	Bashise Trading (Pty) Ltd (342895)	Honey Sucker Truck	4days	4days	4days	R27 000.00
2020-04-02	Bashise Trading (Pty) Ltd (342889)	Honey Sucker Truck	4 days	4days	4days	R27 000.00
2020-04-09	Arzuka (Pty) Ltd (342898)	Honey Sucker Truck	4days	4days	4days	R28 000.00
2020-04-09	Bashise Trading	Honey Sucker Truck	4days	4days	4days	R27 200.00
2020-04-14	Azurka (342909)	Honey Sucker Truck	4days	4days	4days	R28 000.00
2020-04-15	Teloc Waste Management 342910	Jet Vacuum Truck	3days	3days	3days	R30 360.00
2020-04-14	Bashise Trading (342908)	Honey Sucker Truck	4 days	4days	4days	R27 200.00
2020-04-20	Teloc Waste Management (342912)	Jet Vacuum Truck	3days	3days	3days	R30 000.00
2020-04-24	Teloc Waste Management (342920)	Jet Vacuum Truck	3days	3days	3days	R30 000.00
2020-04-21	Minatlou Trading (342913)	renting of TLB and 30 Cubic Truck	2days	2days	2days	R23 040.00
2020-04-21	Lentswe Lentle Supply & P (342914)	renting of TLB and 30 Cubic Truck	2days	2days	2days	R22 977.00
						R682 337.46

The following table is a summary of the proposed revised expenditure budget by type.

Description	A4	Budget Year 2019/20	Special Revised Budget 2019'20 (November 2019)	REVISED BUDGET 2019'20	PROJECTION 12 MONTHS	SPECIAL REVISED BUDGET COVID-19	Increased/Decreased	%	Budget Year +1 2020/21	Budget Year +2 2021/22
Employee related costs	2000	369 651 354	362 651 354	362 651 354	342 651 354	339 651 354	-23 000 000	-6.34%	391 830 435	415 340 261
Remuneration of councillors	2100	27 730 671	27 730 671	27 730 671	27 730 671	27 730 671	0	0.00%	29 394 510	31 158 180
Debt impairment	2200	323 207 412	447 588 420	437 588 420	437 588 420	500 189 712	62 601 292	15.66%	342 599 857	363 155 848
Depreciation & asset impairment	2300	106 226 000	28 361 000	28 361 000	28 361 000	28 361 000	0	0.00%	28 361 000	28 361 000
Finance charges	2400	33 343 397	50 913 083	52 900 000	52 900 000	52 900 000	0	0.00%	34 600 001	35 932 001
Bulk purchases	2500	557 254 496	567 247 367	563 982 407	563 982 407	563 982 407	0	0.00%	607 407 400	662 074 066
Other materials	2600	1 251 632	1 251 632	1 187 544	1 187 544	1 187 544	0	0.00%	1 276 664	1 302 196
Contracted services	2700	85 856 351	85 856 351	98 464 180	78 464 180	70 519 180	-8 000 000	-28.39%	90 065 913	95 406 333
Transfers and subsidies	2800	2 510 200	2 510 200	2 550 450	2 550 450	2 550 450	0	0.00%	2 510 404	2 510 612
Other expenditure	2900	128 868 322	78 293 322	72 783 201	62 783 201	62 181 909	-10 601 292	-20.58%	130 927 995	115 234 027
Loss on disposal of PPE							0	0		
Total Expenditure		1 635 899 835	1 652 403 401	1 648 199 227	1 598 199 227	1 649 254 227	21 000 000	0.42%	1 658 974 178	1 750 474 524

Communications implications

The provision of Sections 22 (b), 23 (3) and 24 (3) of the MFMA of apply in respect of a budget pertaining to the submission of the adjustment budget.

Constitutional and legal implications

The special adjustment budget is submitted in terms of the provisions of Regulations 429 of 30 March 2020, Local Government: Municipal Finance Management Act, 2003 exempted from Act and Regulations, read with Section 28 of the MFMA 56 of 2003.

Other Departments / Bodies Consulted

All municipal departments and Gauteng Provincial Treasury.

Recommendations

- 1) That the Revenue budget of R1, 656 227 643 and Expenditure budget of R 1 649 254 227 for the 2019/2020 - Financial Year be considered as a special adjustments budget to factor in the impact of the COVID- 19 pandemic.
- 2) That it be noted that the adjustment budget will not result in the amendment of tariff changes and that the tariffs as adopted by Council for the 2019/2020 financial year remain unchanged.
- 3) That it be noted that the provisions of Sections 22 (b), 23 (3) and 24 (3) of the MFMA of apply pertaining to make public the especial adjustment budget.

