

ITEM 90/2019
SPECIAL ADJUSTMENT BUDGET 2019/2020 FINANCIAL YEAR

SPECIAL COUNCIL MEETING: 11 NOVEMBER 2019

1. PURPOSE

To submit to Council the Draft Special Adjustment Budget for the 2019/20 Financial Year for approval.

2. BACKGROUND

On the 8th October 2019, the National Treasury informed the Accounting Officer that the municipality has adopted an unfunded budget for the 2019/20 financial year (**Annexure A**). In terms of the letter, an unfunded budget is indicative that the financial plan adopted by council is inadequate to give effect to the priorities identified by a municipality for a particular year. Furthermore, the letter states that municipalities who adopt unfunded budgets generally experience cash flow challenges during implementation of the budget.

The following steps were identified by National Treasury in order to rectify the situation:

a) Engagement between the municipality and the Provincial Treasury

The provincial treasuries have agreed to hold individual meetings with each municipality in their respective provinces who has adopted an unfunded budget. The purpose of this engagement will be to assist your municipality in identifying and effecting the necessary adjustments to reflect a funded budget position. This will require the municipality to make hard but necessary expenditure and revenue choices, albeit unpopular. This task **must** be completed by the **end of October 2019**.

b) Re-adoption of the revised budget in Council through a Special Adjustments Budget

Once the budget has been revised to reflect a funded position for the 2019/20 financial year, the revised budget must be re-adopted at Special Adjustments Budget meeting of Council. Approval for this process will be granted by the National Treasury. The timeframe for this process is between the **1st to the 11th of November 2019**. The revised budget must include current payments to bulk suppliers. The budget proposed over the 2019/20 MTREF period must also reflect gradual improvements to cash surpluses to prioritise any arrear payments to bulk service providers.

Should the municipality fail to comply with the requirements of this letter, the National Treasury will invoke Section 216 (2) of the Constitution which permits the Treasury to stop the allocation of funds to a municipality. Formal notification will be sent to each municipality who fails to rectify the budget informing them that the next tranche of the equitable share due on 02 December 2019 will be withheld.

The MEC of Finance invited the Executive Mayor, MMC Finance, the Acting Municipal Manager and the Chief Financial Officer to a meeting on the 31st October 2019. The municipality presented the financial performance of the 1st quarter indicating the progress made to date on implementation of the turnaround plan as well as the challenges experienced. The municipality adopted a surplus budget, however the cash flow position was not funded to a total amount of R171 million as a result of outstanding creditors, under-collection on revenue, and high water and electricity losses.

The municipality is authorized as per **section 28 of the MFMA** to revise an approved annual budget through an adjustment budget.

3. DISCUSSION

The table below reflects the original budget (revenue and expenditure) as well as the proposed amendments which is discussed in detail underneath.

GT484 Merafong City - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - 31/10/2019

Description	Ref	Budget Year 2019/20									Budget Year	Budget Year
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	+1 2020/21	+2 2021/22
R thousands	1	A	3 A1	4 B	5 C	6 D	7 E	8 F	9 G	10 H		
Revenue By Source												
Property rates	2	536,696	-	-	-	-	-	(20,704)	(20,704)	515,992	568,897	603,031
Service charges - electricity revenue	2	267,584	-	-	-	-	-	-	-	267,584	283,639	300,657
Service charges - water revenue	2	362,742	-	-	-	-	-	(36,259)	(36,259)	326,482	384,506	407,577
Service charges - sanitation revenue	2	55,903	-	-	-	-	-	4,738	4,738	60,640	59,257	62,812
Service charges - refuse revenue	2	62,231	-	-	-	-	-	8,564	8,564	70,795	65,965	69,923
Rental of facilities and equipment		2,495								2,495	2,645	2,804
Interest earned - external investments		8,871								8,871	9,403	9,967
Interest earned - outstanding debtors		113,559						22,264	22,264	135,823	120,373	127,595
Dividends received		-								-	-	-
Fines, penalties and forfeits		7,435								7,435	7,882	8,355
Licences and permits		17,382								17,382	18,427	19,532
Agency services		-								-	-	-
Transfers and subsidies		233,422								233,422	248,796	269,137
Other revenue	2	6,429	-	-	-	-	-	-	-	6,429	6,815	7,224
Gains on disposal of PPE		-								-	-	-
Total Revenue (excluding capital transfers and contributions)		1,674,748						(21,398)	(21,398)	1,653,350	1,776,603	1,888,613
Expenditure By Type												
Employee related costs		369,651	-	-	-	-	-	(7,000)	(7,000)	362,651	391,830	415,340
Remuneration of councillors		27,731								27,731	29,395	31,158
Debt impairment		323,207						124,381	124,381	447,588	444,791	471,479
Depreciation & asset impairment		28,361						-	-	28,361	28,361	28,361
Finance charges		33,343						17,570	17,570	50,913	53,968	57,206
Bulk purchases		557,254						9,993	9,993	567,247	607,407	662,074
Other materials		1,252								1,252	1,277	1,302
Contracted services		85,856								85,856	90,066	95,406
Transfers and subsidies		2,510								2,510	2,510	2,511
Other expenditure		128,868						(50,575)	(50,575)	78,293	78,176	82,322
Loss on disposal of PPE		-								-	-	-
Total Expenditure		1,558,035						94,369	94,369	1,652,403	1,727,781	1,847,159
Surplus/(Deficit)		116,713						(115,766)	(115,766)	947	48,822	41,453
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		161,830								161,830	163,144	174,559
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)												
Transfers and subsidies - capital (in-kind - all)												
Surplus/(Deficit) before taxation		278,544						(115,766)	(115,766)	162,777	211,967	216,013
Taxation												
Surplus/(Deficit) after taxation		278,544						(115,766)	(115,766)	162,777	211,967	216,013
Attributable to minorities												
Surplus/(Deficit) attributable to municipality		278,544						(115,766)	(115,766)	162,777	211,967	216,013
Share of surplus/ (deficit) of associate												
Surplus/ (Deficit) for the year		278,544						(115,766)	(115,766)	162,777	211,967	216,013

The original projections as per approved budget in terms of the approved 2019/20 budget was that the municipality will have a surplus of R38,848 Million but a negative cash flow of R171.7 Million. The main reason for an unfunded budget is the outstanding creditors, under-collection on revenue, and high water and electricity losses. Furthermore, the budget assumption used during the preparation of the 2019/20 budget was based on the financial

performance as at April 2019. The unaudited budget performance figures as at the end of the financial year 30 June 2019, however reflected variances as compared to planned.

A Turnaround strategy and plan was adopted by council on the 19 October 2017 to address the issues related to the deficit of the municipality and a priority plan was adopted in October 2018 focusing on water losses, electricity losses and improving collection.

A comprehensive exercise was undertaken to compile a special adjustment budget that is cash funded and each revenue and expenditure line item was analysed based on the actual performance for the period July 2019 until October 2019.

3.1 REVENUE

The following assumptions were used in the analysis of the revenue performance:

The four months actual billing was assessed and used to determine the projected Revenue for the remainder of the eight months of the 2019/20 financial year. It was found that adjustments will have to be made to the following:

Property rates	(R20 704) Million
Service charges - water revenue	(R36 259) Million
Service charges - sanitation revenue	R 4 738 Million
Service charges - refuse revenue	R 8 564 Million
Interest earned - outstanding debtors	R22 264 Million
Total revenue adjustment	(R21 398 Million)

Based on the above, it is proposed that the budgeted revenue be reduced by R21 398 Million.

The reasons for the adjustments are discussed below.

3.1.1 Property Rates

The municipality has implemented a new valuation roll with effect from the 01st July 2019. The property rates policy as approved by Council makes for provision that in imposing the rate in the rand for each annual operating budget component, the municipality shall grant exemptions, rebates and reductions to the respective categories of properties and owners. One category of owners as approved in the policy is retired and disabled persons. This category of owners qualify for special rebates according to monthly household income.

Below is a table indicating the percentage rebate that the owner of a property qualifies for based on the annual income received.

<u>Retired and disabled person on residential properties only :</u>	
Owner with income between R1 – 80 000	100%
Owner with income between R80 001 – 84 000	75%
Owner with income between R84 001 – R88 000	50%
Owner with income between R88 001– R92 000	25%
Owner with income above R92 001.	0%

The total rebates to pensioners and disabled persons was unknown during the finalisation of the 2019/20 budget and this has resulted in that the projected revenue was overstated as most applications for rebates were only received during the commencement of the budget year.

It was indicated in budget item for approving the 2019/20 budget that the main reason for the budgeted surplus was as a result of the implementation of the new valuation roll. The mines are valued at R7, 6 billion generating a total annual revenue of R361, 521 Million. The budgeted revenue is however subject to the outcome of the valuation appeal board process.

A supplementary valuations of the mines was undertaken and concluded during 2018/19 financial year. At the time of the approval of the 2019/20 budget, there was no established valuation appeal board for the municipality. Subsequently, the MEC for Local Government has established a valuation appeal board for the municipality for a period of 4 years commencing on the 01st October 2019 until 30th September 2023. The valuation appeal board is expected to finalise the objections of the mines on the long outstanding supplementary valuations.

3.1.2 Service Charges – Water revenue

The actual billing for the period July 2019 until October 2019 was analysed and it has been established that the water sales for Sibanye Gold has significantly declined. The municipality is providing water to the mines as the water authority. Sibanye Gold is currently purifying water that is extracted underground and this has a serious effect on the budgeted revenue. In addition the overall water consumption has declined compared to the previous financial year. This can be attributed to the 20% water restriction that has been imposed by Rand Water due to arrears on the bulk account as well as the pressure management implemented by the municipality in accordance with the water turnaround strategy.

The Rand Water Foundation will be implementing the war on leaks programme during the second of the 2019/20 financial year which should have a positive impact on reducing water losses at household levels. The service provider has been appointed and the project initiation meeting commenced on the 01st November 2019. A total number of 30 EPWP workers have been trained and have commenced with meter audits.

Based on the reduced billing for water as analysed for the period 01 July 2019 until 31st October 2019, it is proposed that the projected water revenue should be reduced with R36.2m.

3.1.3 Service charges - sanitation revenue

The budgeted revenue from sanitation was analysed and adjusted according to the trend for the first four months of the financial year. It is proposed that the budget be increased by R4,7 Million.

3.1.4 Service charges - refuse revenue

The budgeted revenue from refuse was analysed and adjusted according the actual billing for the first four months of the financial year. It is proposed that the budget be increased by R8, 5 Million.

3.1.5 Interest earned - outstanding debtors

The municipality has budgeted for a collection rate of 70% for the 2019/2020 financial year and based on the performance as at 30 June 2019, the municipality achieved an average

collection rate of 64.25%. The major contributing factor is the increasing debtor's book exacerbated by the Blyvooruitzicht Mine in liquidation with a total outstanding balance of R657m. The implementation of the new valuation roll whereby a total of 215 objections have been received and not yet finalised has a negative impact in the collection rate. This has resulted in that debtor's balances had increased higher than was anticipated and this had a direct impact on interest charged on outstanding debtors.

It is proposed that the collection rate should be adjusted to 68% based on the current trend as well as intensified credit control implementation in township areas.

3.2 EXPENDITURE

3.2.1 Employee related costs

The total expenditure for employee related costs for 2017/18 financial as compared to the 2018/19 financial is a reduction of 0.94% as reflected in the table below. This reduction is after the municipality has implemented the 7% salary increase for bargaining Council employees. Included in the employee related expenditure for the 2018/19 financial year is a total amount of R10.8m that was utilised towards leave encashment.

No provision for leave encashment has been included in the budget in accordance with the provisions of the new SALGBC collective agreement effective from 01 July 2019.

2017/2018	327,449,987
2018/2019	324,367,485
Variance -0.94%	

The reduction in employee related expenditure as compared year on year can be attributed to the summary below of terminations of employment in comparison to new appointments:

	<u>Resignations/ Death/ Pension</u>	<u>New Appointments</u>
2017/2018	28	2
2018/2019	29	6
2019/2020	8	0

Provision was made in the 2019/20 budget for an amount of R14m for filling of vacant positions and it is proposed that this amount be reduced to R7m. It is acknowledged that the municipality is currently operating at a 49% vacancy rate but the current financial position does not allow for the filling of vacancies. The situation is continuously monitored and will be prioritised once the financial position improves.

It is proposed that the budget for employee related costs be reduced from R369m to R362m for the 2019/20 financial year.

3.2.2 Debt Impairment

The municipality has budgeted for a collection rate of 70% as discussed under 3.1.5 and based on the current performance, it is proposed that the collection rate should be reduced to 68%.

The disturbing culture of non-payment for municipal services prevailing in the municipal township areas is still a significant cause for concern. This culture is spreading to newly developed townships and this has placed the financial wellbeing, viability and sustainability

of the municipality at a huge risk. The implementation of credit control in township areas is a serious concern as the culture of intimidation of credit control service provider and municipal workers is intensifying.

Load shedding was implemented in areas with low payment levels and various challenges has been experienced in this regard. The next level to address the increasing electricity losses and low payment levels is to institute block disconnections in areas with low payment rates.

The net result of reducing the payment levels from 70% to 68% is that the provision for debt impairment will increase from R323m to R447m.

3.2.3 Finance Charges

The municipality is experiencing serious cash flow challenges and service providers cannot be paid within 30 days as required by section 65 of the Municipal Finance Management Act.

Eskom tariff structure is such that the municipality is charged low season tariffs from September until April and high season tariffs for the period May until August. The high season account from Eskom is unaffordable to the municipality and this has resulted in the increase of the outstanding bulk account which has a ripple effect of increase in interest charged.

The municipality previously entered into a payment arrangement with Rand Water which lapsed in October 2018 and it was honoured in full. Due to the Eskom high season accounts and low collection rates, the municipality failed to pay the Rand Water account in full. The municipality has entered into repayment agreements with Rand Water and Eskom and both service providers continue to levy interest on the outstanding accounts.

The projected amount for finance charged should be increased based on the current trends in outstanding creditors from R32.3m to R50.9m.

3.2.4 Bulk Purchases

Electricity

The municipality is experiencing serious challenges in addressing the by-passed pre-paid electricity meters. The total number of electricity prepaid meters is in total 13000 as at 31st October 2019. Various projects were implemented to effectively deal with the households that were not purchasing electricity and all efforts seemed to be futile. A detailed analysis per ward was done in all areas for electricity non-purchase meters. The approved turnaround strategy makes provision for block disconnections where it is found that the majority of the consumers in an area has by-passed the meters.

Based on the current trend, the electricity bulk purchases provision should be increased by R21.6m

Water

The trend for the water purchases for the period July 2019 until October 2019 indicates that the projection for the 2019/20 financial year should be reduced. As discussed in 3.1.2 above, the bulk purchases will decline due to the water purification that is being undertaken by Sibanye Gold as well as the Rand Water 20% water restriction.

Furthermore, the municipality has embarked on a maintenance programme for the various reservoirs by installing PRV and levelling devices in an attempt to also reduce the water losses. The analysis of the first quarter performance has indicated a decline of water loss to an average of 32.23% as compared to the annual average loss of 47.16% for the 2018/19 financial year.

It is proposed that the projection for bulk water purchases should be reduced by R11, 6m for the 2019/20 financial year.

The total bulk purchases for the 2019/20 financial year will increase from R557m to R567m.

3.2.5 Other Expenditure

The municipality has implemented strict cost containment measures in the past five years and below is a summary of the net effect of such strict financial measures:

COST CUTTING MEASURES (R)						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Attendance and conference	359 701	184 045	6 315	5 660	0	0
Entertainment	688 210	345 071	155 913	14 406	2 406	7 725
Travel and conferences	1 776 114	892 212	120 183	171 489	65 016	5 000
Grass cutting	12 450 269	11 424 840	5 757 944	0	0	0
Security Services	25 307 704	23 677 941	14 084 243	12 548 593	10 096 853	9 989 775
	R 40 581 998	R36 524 109	R20 124 598	R12 740 148	R10 164 275	R10 002 500

Furthermore, contracted services for the 2018/19 financial year as compared to the 2017/18 financial year has increased with 1.97%. This is despite the annual consumer price index that is effected on an annual basis on most contracts. Due to close monitoring of expenses, the total expenditure on other expenses has reduced from R85.6m in 2017/18 financial year to R74.5m in the 2018/19 financial year. The following expenditure items have not been

catered for in the 2019/20 budget: entertainment, travel and subsistence, attendance of conference and catering.

It is proposed that the total budget for other expenses should be amended from R128m to R78m for the 2019/10 financial year. The R50.5m reduction is the provision that was made to pay for licences.

3.2.6 Depreciation

The provision made for deprivation for the 2019/20 financial year is a total amount of R28.3m. Due to current cash flow constraints, the municipality is not in a position to implement a Capital Replacement Reserve as required.

No adjustment is proposed in the provision made for depreciation.

3.3 RE-ALIGNMENT OF 2019/20 CAPITAL BUDGET

3.3.1 Municipal Infrastructure grant

Several projects were commenced with during the 2018/19 financial year, but due to the late contract award of the projects they could not be completed. Since incomplete and the budgets not fully expended, an application was lodged for the funding to be rolled over to the 2019/20 financial year. Unfortunately National Treasury declined the rollover and despite the municipality lodging and appeal, an instruction was received to return the unspent funding.

In the absence therefore of the rollover funding, it is necessary to re-align the available funding for the 2019/20 financial year in order for the municipality to meet its contractual obligations. This necessitates for new 2019/20 projects presently at various stages in the design and planning process to be suspended for later implementation or alternatively slightly postponed in order for the projects to be funded over two consecutive financial years.

Below is the proposed re-alignment of the capital budget.

Project Description	Budget 2019/2020	Addition / Deduction (-)	Re-Aligned Budget 2019/2020	Remarks
P M U Operational Expenses	3 313 750	0	3 313 750	No Adjustment. Fixed allowance.
Khutsong Roads and Stormwater (Phase 3)	900 000	2 360 000	3 260 000	Project not completed during 2018/19. Budget provision to complete project.
Khutsong Roads and Stormwater (Phase 4)	11 100 000	-9 500 000	1 600 000	Delay implementation since planning has not yet commenced. Provision for Consultant expenditure up to documentation & procurement stage. Conclude procurement by May 2020. Plan for contractor to establish site by June 2020.
Kokosi Ext 6 Construction of Roads	0	2 000 000	2 000 000	Two separately registered projects combined under the same contract. Provision to complete project in the absence of rollover approval.
Kokosi Roads and Stormwater (Phase 3)	1 938 331	-1 095 831	842 500	
Kokosi Roads and Stormwater (Phase 4)	10 061 669	2 113 331	12 175 000	Budget as per consultant's estimate. Project requires significant extension of stormwater reticulation outside road construction area.
Wedela Ext 3 Roads and Stormwater (Phase 3)	990 000	5 010 000	6 000 000	Provision to complete project in the absence of rollover approval with addition to complete full scope of original tender.

Wedela Ext 3 Roads and Stormwater (Phase 4)	5 800 000	0	5 800 000	Provisional consultant's estimate indicate for sufficient budget provision. No adjustment required.
Informal Trading Area (Phase 2 - Oberholzer)	3 673 917	-2 923 917	750 000	Consultant's estimate at ±R5.769m exceeds funding remaining available on the registered BP. Recommend for project to be cancelled and new BP to be submitted to request for upgrading and rehabilitation of entire taxi holding area. Utilise funding still available for professional fees for compilation of new BP and development of designs.
Sludge Drying Beds - Kokosi & Khutsong WWTW	18 272 072	0	18 272 072	No adjustment required for now since budget can sustain expenditure until approval on application to waive counter funding is obtained.
Khutsong North Water & Sewer Reticulation	10 225 261	-663 583	9 561 678	Provision to execute project in the absence of rollover approval. Provisional consultant's high level estimate exceeds available budget, therefore progress will need to be managed and paced for multi-year implementation.
Merafong Bulk Supply	0	2 700 000	2 700 000	Provision to complete project in the absence of rollover approval. Project could not commence during 2018/19 since project registration only concluded on 21/08/2019.
TOTAL 2019/20 MIG ALLOCATION	66 275 000	0	66 275 000	

3.3.2 Water Services Infrastructure Grant (WSIG)

With reference to Annexure A, National Treasury approved the municipality's rollover application for an amount of R34 908 595.09 in respect of the "*Relocation of Khutsong Reservoir and Related Bulk Infrastructure*" project and it must therefore be included in the budget in terms of Section 28(2)(b) that determines: "an adjustments budget 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."

The project is budgeted for, hence the rollover funding will serve to augment the current budget provision.

3.3.3 Municipal Disaster Recovery Grant (MDRG)

As for the WSIG rollover project above, National Treasury has similarly approved the municipality's rollover application for an amount of R7 881 014 in respect of the following MDRG projects:

- Carletonville Reservoir (007);
- Khutsong Mzwanzwa Street Outfall Sewer Pipeline Bypass;
- Onyx Street Bulk Sewer Pipeline Replacement.

The latter two projects have however been completed and it is recommended that the combined R45 521 rollover funding approved for these two projects is availed to the Carletonville Reservoir (007) project to address some unforeseen expenditure incurred on the project through additional rehabilitation works associated with the curtain grouting operations that is being undertaken.

3.3.4 Integrated National Electrification Programme (INEP)

Budgets for the INEP projects were provisionally allocated, but projects had to be re-prioritised to cover the expenditure incurred on the projects as a result of a reduction by R6 million of the allocation in the previous financial year. This process necessitated for the municipality to engage the Department of Energy (DoE) in discussions in order to undertake a project change control process to ensure compliance with the funding agreement entered into. DoE in terms of the project change control process approved the changes requested, resulting therein that the funding allocation was re-aligned to include a provision for the Fochville Bulk Electrical Supply and budget changes to the remainder of the projects as follows:

Project Description	Approved Budget 2019/20	Change Control Approved Addition/(Deduction)	Revised Budget 2019/20
Fochville Bulk Electrical Supply	R 0.00	R 6 951 192	R 6 951 192
Kokosi Ext 99 Electrification	R 7 800 000	(R 6 131 400)	R 1 668 600
Kokosi Ext 6 Electrification	R 7 800 000	(R 819 792)	R 6 980 208
TOTALS	R 15 600 000	R 0.00	R 15 600 000

3. 4 CASHFLOW

GT484 Merafong City - Table B7 Adjustments Budget Cash Flows - 31/10/2019

Description	Ref	Budget Year 2019/20									Budget Year	Budget Year
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	A1	B	C	D	E	F	G	H		
CASH FLOW FROM OPERATING ACTIVITIES												
Receipts												
Property rates		482,493						(131,619)	(131,619)	350,875	386,850	410,061
Service charges		523,921						(30,581)	(30,581)	493,341	539,489	571,859
Other revenue		33,742						-	-	33,742	35,768	37,914
Government - operating	1	233,422								233,422	248,796	269,137
Government - capital	1	161,830								161,830	163,144	174,559
Interest		88,264						12,966	12,966	101,230	91,256	96,732
Dividends										-	-	
Payments												
Suppliers and employees		(1,148,527)						59,377	59,377	(1,089,150)	(1,185,238)	(1,255,603)
Finance charges		(33,343)						(17,570)	(17,570)	(50,913)	(34,600)	(35,932)
Transfers and Grants	1									-	-	
NET CASH FROM/(USED) OPERATING ACTIVITIES		341,802	-	-	-	-	-	(107,426)	(107,426)	234,376	245,466	268,727
CASH FLOWS FROM INVESTING ACTIVITIES												
Receipts												
Proceeds on disposal of PPE										-	-	
Decrease (Increase) in non-current debtors										-	-	
Decrease (increase) other non-current receivables										-	-	
Decrease (increase) in non-current investments										-	-	
Payments												
Capital assets		(163,290)								(163,290)	(164,604)	(176,020)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(163,290)	-	-	-	-	-	-	-	(163,290)	(164,604)	(176,020)
CASH FLOWS FROM FINANCING ACTIVITIES												
Receipts												
Short term loans										-	-	
Borrowing long term/refinancing										-	-	
Increase (decrease) in consumer deposits										-	-	
Payments												
Repayment of borrowing		(6,337)						(37,371)	(37,371)	(43,708)	(56,462)	(85,684)
NET CASH FROM/(USED) FINANCING ACTIVITIES		(6,337)	-	-	-	-	-	(37,371)	(37,371)	(43,708)	(56,462)	(85,684)
NET INCREASE/ (DECREASE) IN CASH HELD		172,175	-	-	-	-	-	(144,797)	(144,797)	27,377	24,400	7,023
Cash/cash equivalents at the year begin:	2	115,272								115,272	142,649	167,049
Cash/cash equivalents at the year end:	2	287,446						(144,797)	(144,797)	142,649	167,049	174,072

The municipality has proposed to enter into repayment agreements with Eskom and Rand Water. The repayment term of the Eskom agreement is 54 months and the Rand Water agreement 18 months. This has enabled the municipality to split the outstanding arrear amount over the repayment period and the balances has been reclassified in short-term and long term commitments.

During the compilation of the 2019/2020 budget the actual cash balance as at the beginning of the financial year was not available. The municipality has commenced the 2019/20 financial year with a positive cash balance.

Cashback reserves / accumulated surplus reconciliation

GT484 Merafong City - Table B8 Cash backed reserves/accumulated surplus reconciliation - 31/10/2019

Description	Ref	Budget Year 2019/20									Budget Year	Budget Year
		Original Budget	Prior Adjusted	Accum. Funds	Multi-year capital	Unfore. Unavoid.	Nat. or Prov. Govt	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands		A	A1	B	C	D	E	F	G	H	+1 2020/21	+2 2021/22
Cash and investments available												
Cash/cash equivalents at the year end	1	287,446	-	-	-	-	-	(144,797)	(144,797)	142,649	167,049	174,072
Other current investments > 90 days		(287,446)	-	-	-	-	-	287,446	287,446	0	-	-
Non current assets - Investments	1	-	-	-	-	-	-	-	-	-	-	-
Cash and investments available:		-	-	-	-	-	-	142,649	142,649	142,649	167,049	174,072
Applications of cash and investments												
Unspent conditional transfers		-	-	-	-	-	-	-	-	-	-	-
Unspent borrowing												
Statutory requirements												
Other working capital requirements	2	46,883	-	-	-	-	-	63,640	63,640	110,522	82,792	43,758
Other provisions												
Long term investments committed		-	-	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments		-	-	-	-	-	-	-	-	-	-	-
Total Application of cash and investments:		46,883	-	-	-	-	-	63,640	63,640	110,522	82,792	43,758
Surplus(shortfall)		(46,883)	-	-	-	-	-	79,009	79,009	32,127	84,257	130,313

The municipality will be able to approve a cash funded budget as required in section 18 of the MFMA and this was achieved based on the following:

The repayment term of the Eskom agreement is 54 months and the Rand Water agreement 18 months. This has enabled the municipality to split the outstanding arrear amount over the repayment period and the balances has been reclassified in short-term and long term commitments.

Repayment agreements					
	<u>2019/2020</u>	<u>2020/2021</u>	<u>2021/2022</u>	<u>2022/2023</u>	<u>2023/2024</u>
Eskom	18,161,375.70	22,757,619.42	79,347,069.71	103,165,358.23	140,575,128.93
Rand Water	19,209,958.17	27,367,766.54			
	<u>37,371,333.87</u>	<u>50,125,385.96</u>	<u>79,347,069.71</u>	<u>103,165,358.23</u>	<u>140,575,128.93</u>

The municipality has commenced the 2019/20 financial year with a positive cash balance and this could not have been known during the compilation of the 2019/20 budget. The additional reduction of R7m in the vacant budgeted positions and reduction in other expenditure also assisted in ensuring that the cash flow is funded.

4 COMMUNICATION IMPLICATIONS

Gauteng Provincial Treasury

National Treasury

5 CONSTITUTIONAL AND LEGAL IMPLICATIONS

The Special adjustment budget is tabled in terms with section 28 and 29 of the Municipal Finance Management Act.

6 OTHER DEPARTMENTS/BODIES CONSULTED

All departments and EXCO

Budget Steering Committee

Gauteng Provincial Treasury

RECOMMENDED

- I. That Council takes cognisance of the report.
- II. That Council approves the special adjustment budget to R1,653,350 Billion and Expenditure budget of R1,652,403 Billion for the 2019/2020 financial year be approved as an adjustment budget.
- III. That Council notes that the budgeted expenditure includes depreciation and debt impairment as non-cash items.
- IV. That Council has budgeted for a cash funded budget for 2019/20 financial year.
- V. The 2019/20 capital budget in respect of MIG funded projects be adjusted as follows:

Project Description	Budget 2019/2020	Addition / Deduction (-)	Re-Aligned Budget 2019/2020
P M U Operational Expenses	3 313 750	0	3 313 750
Khutsong Roads and Stormwater (Phase 3)	900 000	2 360 000	3 260 000
Khutsong Roads and Stormwater (Phase 4)	11 100 000	-9 500 000	1 600 000
Kokosi Ext 6 Construction of Roads	0	2 000 000	2 000 000
Kokosi Roads and Stormwater (Phase 3)	1 938 331	-1 095 831	842 500
Kokosi Roads and Stormwater (Phase 4)	10 061 669	2 113 331	12 175 000
Wedela Ext 3 Roads and Stormwater (Phase 3)	990 000	5 010 000	6 000 000
Wedela Ext 3 Roads and Stormwater (Phase 4)	5 800 000	0	5 800 000
Informal Trading Area (Phase 2 - Oberholzer)	3 673 917	-2 923 917	750 000
Sludge Drying Beds - Kokosi & Khutsong WWTW	18 272 072	0	18 272 072
Khutsong North Water & Sewer Reticulation	10 225 261	-663 583	9 561 678
Merafong Bulk Supply	0	2 700 000	2 700 000
TOTAL 2019/20 MIG ALLOCATION	66 275 000	0	66 275 000

- VI. The 2019/20 capital budget for the "Relocation of Khutsong Reservoir and Related Bulk Infrastructure" project in respect of the WSIG allocation be adjusted from R20 million to R54 683 290.86 to take into account the rollover of R34.9 million approved by National Treasury;

- VII. The 2019/20 capital budget for the “*Carletonville Reservoir(007)*” project in respect of the Municipal Disaster Recovery Grant (MDRG) allocation be adjusted from R0 to R7 881 014 to take into account the rollover approved by National Treasury;
- VIII. The 2019/20 capital budget in respect of the Integrated National Electrification Programme (INEP) allocation be adjusted as follows:

Project Description	Approved Budget 2019/20	Change Control Approved Addition / (Deduction)	Revised Budget 2019/20
Fochville Bulk Elec. Supply	R 0.00	R 6 951 192	R 6 951 192
Kokosi Ext 99 Electrification	R 7 800 000	(R 6 131 400)	R 1 668 600
Kokosi Ext 6 Electrification	R 7 800 000	(R 819 792)	R 6 980 208
TOTALS	R 15 600 000	R 0.00	R 15 600 000