



Budget Adjustment

MFMA Section 28 Report

2024/2025

Govan Mbeki Municipality

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1.1 Chapter 1: Overview

1.2 Background

The 2024/25 MTREF was approved by Council on 31 May 2024 in accordance with Section 24(1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) and applicable National treasury finance management reform requirements.

Section 72 of the MFMA stipulates that the Accounting Officer must by 25 January assess the performance of the municipality during the first half of the financial year. Section 72 (3), read with section 54 (1) (f) & section 54 (2) stipulates that as part of the performance assessment of the municipality during the first half of the financial year, the Accounting Officer must make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure, to the extent that it may be necessary.

The Mid-year budget assessment report considered by Council indicated the necessity for tabling an Adjustments Budget for the 2024/25 financial year for inter alia, the following:

- To adjust the revenue estimates downward/upward owing to a declining/increasing trend in certain operating revenue sources.
- To authorise the utilisation of projected savings in one vote towards spending under another vote.
- To ensure that additional Capital expenditure is included in the budget, and
- To facilitate the inclusion of rolled over/transfer grant funding.

Circular 99 of Municipal Finance Management Act (Act 56 of 2003) states that Adopting a funded budget has become more critical now than before as it has direct bearing on the financial sustainability of the institution. It has been agreed that no municipality will adopt an unfunded budget in the future, and if the budget is unfunded, it must at least have a surplus and positive cashflow. There are cases that may warrant a plan as this may not be achievable over one year. As a result, such municipalities must, together with their 2024/25 MTREF adjustment budget, table updated Financial Recovery Plan and the impact assessment plan detailing how the municipal council will improve from an unfunded to a funded position. This will be essential when the National and provincial treasuries are assessing the budget to determine its credibility.

1.3 Regulation

In terms of Section 28 of the Municipal Finance Management Act (Act 56 of 2003) a municipality may revise an approved annual budget through an adjustment budget. It is important to note that the adjustment budget is not a re-budgeting process, thus fiscal discipline must be adhered to at all times. Only the Mayor may table an adjustment budget in the municipal council and it may only be tabled within prescribed limitations as to timing or frequency. In terms of the Municipal Budget and Reporting Regulations, only one adjustment budget may be tabled in Council during the financial year, after tabling of the mid-year budget and performance assessment, but not later than 28 February.

1.4 Financial overview

The following table summarises the outcome of the 2024/25 Adjustment Budget:

Description	Original Budget 2024/25	Adjusted Budget 2024/25	Budget 2025/2026	Budget 2026/2027
Total Operating Revenue	3 300 377 587.00	3 306 726 372.46	3 431 691 367.00	3 615 143 909.00
Total Operating Expenditure	3 987 098 397.00	3 959 362 291.23	3 247 906 538.00	3 409 919 712.00
Deficit for year before grants & transfers	686 720 810.00	652 635 918.77	183 784 829.00	205 224 197.00
Grants and transfer revenue	117 651 000.00	126 934 378.00	88 799 000.00	93 886 000.00
Deficit after grants and transfers	569 069 810.00	525 701 540.77	272 583 829.00	299 110 197.00
Total Capital Expenditure	273 903 300.00	304 143 478.61	237 858 935.00	211 555 723.57
Net deficit	842 973 110.00	829 845 019.38	34 724 894.00	87 554 473.43

Table 1: Consolidated overview of the 2024/25 Adjustment Budget

The council approved the 2024/25 Original operational revenue budget to the amount of R 3 300 billion which has been adjusted to R 3 306 billion.

The main purpose of this adjustment budget is therefore to adjust the material under and over budgeted figures as well as to accommodate unspent grants from 2023/24 financial year.

The municipality consider non-satisfactory performance on electricity and water because of electricity and water losses.

There are various revenue enhancement initiatives underway and implemented accordingly to ensure improved Municipal its collection rate across all service rendered to the community.

The initiatives include but not limited to:

- Service Level Agreements (SLA) have been concluded with the panel which will enable the municipality to utilise the appointed companies to effectively implement credit control.
- Public Participation to encourage community to pay
- Meter audit for Large Power Users is in progress.
- Migration of SG Codes is ongoing.
- Installation of electricity and water meters
- Disconnection of non-paying business.
- Consultation with non-paying customers.
- Increase Municipal tax base by billing of unbilled customers.
- Effecting contract conditions that were never affected.
- The process of collecting from the prospective buyer of municipal land that was disposed is underway

Based on this, it is anticipated that the revenue will gradually increase and unable the municipality to meet its core obligation of service delivery across Govan Mbeki Municipality's jurisdiction

Table 2: Significant Operational Budget Adjustments

Expenditure	2024/25 Original Budget	Actual to date	Adjustment	2024/25 Adjusted Budget	Reason
Bulk Purchases	853 967 088.00	661 612 629.20	247 645 541.20	1 101 612 629.20	Adjustment is based on forecast using the expenditure to date
Contracted Services	327 371 408.00	197 773 099.88	129 207 699.60	456 579 107.60	Major increase in Contracted services is due to increase in Electricity Network Maintenance due to vandalization and dilapidating of infrastructure. This is to ensure service delivery is not compromised
Debt Impairment	988 750 000.00	-	- 483 984 424.04	504 765 575.96	Debt impairment is decreased based on calculation for the year and last year's audited figures and General Accepted Accounting Practise (GRAAP) standard.
Inventory Consumed	515 279 389.00	280 966 606.84	37 868 491.52	553 147 880.52	Major increase in Inventory Consumed is due to increase in Material and Supply for Energy section to ensure service delivery is not compromised
Transfers and Subsidies	28 360 647.00	18 727 360.48	9 000 000.00	37 360 647.00	Transfers and subsidies to be increased to cater for the increase in number of indigent customers
Depreciation and Amortisation	165 836 853.00	61 783 644.58	- 20 000 000.00	145 836 853.00	Depreciation is decreasing by R 20 million, based on year-to-date expenditure and 2023/24 audited figures, the budget will be sufficient even to cover for new acquisitions.
Interest; Dividends and Rent on Land	140 086 694.00	109 452 179.08	30 000 000.00	170 086 694.00	R30 million increase in Interest is due to Eskom and Rand water Accounts this segment is already overspent
Operational cost	144 598 858.00	65 925 987.03	22 526 585.95	167 125 443.95	Increase is done to cater for EPWP stipend that was not initially budget for.
Total	3 164 250 937.00	734 628 877.01	-27 736 105.77	3 136 514 831.23	

2. Chapter 2: Section 13: Quality Certification By Accounting Officer

QUALITY CERTIFICATE

I, **EN Maseko**, the Municipal Manager of **Govan Mbeki Municipality**, hereby certify that: -

✓ **The Adjusted Budget**

Supporting documentation for the **Adjustment Budget** have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name: AMB Mavimbela

Acting Chief Financial Officer of Govan Mbeki Municipality (MP307)

Signature:

Date:

Print Name: EN Maseko

Municipal Manager of Govan Mbeki Municipality (MP307)

Signature:

Date:

3. Chapter 3: Executive summary

3.1 Executive Summary

The Adjustment Budget was prepared in terms of the guidelines contained in Section 28(2) of the MFMA and furthermore ensures that the Municipality continues delivery on its core mandate and identified priorities and principles, achieve its developmental goals and entails prioritising all available resources towards essential services and contractual financial commitments.

In general, the aim with the compilation of the **2024/25 Adjustment Budget** is to align the expenditure to the revenue and ensure that the budget is funded. The Head of Departments need to apply belt tightening measures by reprioritising and down scaling of non-core functions to uphold service delivery towards core functions on a sustainable level. Furthermore, measures in place are the funds management tool, which assists in budgeted allocations not being exceeded and savings to be affected as far as possible.

The under mentioned principles gave guidance to the compilation of the **2024/25 Adjustment Budget**:

- A. The Budget must be funded in terms of the funding compliance procedure set out in MFMA Circular 108.
- B. Affordability within the context of sustainability must be considered and maintained.
- C. No additional funding capacity is available on the budget therefore no additional funding requests will be accommodated during the Adjustment Budget process Funding will only be considered subject to:
 - a. Additional revenue
 - b. A projected under collection in revenue that will result in a request to decrease the relevant revenue, must be accompanied by a corresponding decrease in expenditure.
 - c. Savings identified in other programmes and projects.
 - d. Grants to be received from an external source.
 - e. Submissions which relate to external funding sources must be accompanied by proof of confirmation from the relevant transferring authority.
 - f. Appropriation of funding form National/Provincial departments should be accompanied by acceptable documentation as per Municipal Budget and Reporting Regulations (MBRR).
- D. Filling of vacancies should be processed within current allocation.
- E. Overtime to be managed within the available resources and departments are encouraged to adopt a shift system to manage overtime expenditure.
- F. Repairs and Maintenance plans to be developed to ensure that service delivery is not compromised.
- G. Departments need to concentrate on core functions, proactively review and reprioritize their budget and identify savings that can be affected during the Adjustment Budget process to assist with the Municipality's financial position.
- H. No savings on grant funding will be accommodated, as all grant allocations must be spent according to the terms and conditions of the grant.
- I. Departments are encouraged to spent on the allocated grant funding, in case of unspent grants at year end rollover applications should be done and supported.

3.2 Operating budget

3.2.1 Adjustments Budget Financial Performance (revenue per source)

The following table reflects the approved 2024/25 MTREF, the proposed 2024/25 Adjustment Budget (revenue by source):

Revenue	Approved Budget	Actual To date	Proposed Adjustment	Final Budget 2024/25
Exchange Revenue	- 2 318 940 511.00	- 1 112 542 989.00	- 6 261 045.73	- 2 325 175 455.73
Interest; Dividend and Rent on Land	- 230 002 675.00	- 144 794 636.53	-	- 230 002 675.00
Operational Revenue	- 5 850 937.00	- 679 638.04	- 657 045.73	- 6 481 881.73
Rental from Fixed Assets	- 5 697 877.00	- 4 738 731.97	- 4 770 000.00	- 10 467 877.00
Sales of Goods and Rendering of Services	- 6 455 478.00	- 3 964 974.63	- 834 000.00	- 7 289 478.00
Service Charges	- 2 070 933 544.00	- 958 365 007.83	-	- 2 070 933 544.00
Electricity	- 994 106 651.00	- 481 467 653.58	-	- 994 106 651.00
Waste Management	- 180 035 681.00	- 90 928 819.25	-	- 180 035 681.00
Waste Water Management	- 182 706 416.00	- 95 014 582.43	-	- 182 706 416.00
Water	- 714 084 796.00	- 290 953 952.57	-	- 714 084 796.00
Non-exchange Revenue	- 1 096 588 076.00	- 691 970 722.27	- 9 371 117.73	- 1 105 959 195.73
Fines; Penalties and Forfeits	- 19 836 386.00	- 4 878 722.44	1 105 904.00	- 18 730 482.00
Interest	- 21 687 634.00	- 19 857 000.43	-	- 21 687 634.00
Property Rates by Usage	- 445 250 056.00	- 227 784 644.17	-	- 445 250 056.00
Transfers and Subsidies	- 609 814 000.00	- 439 450 355.23	- 10 477 021.73	- 620 291 021.73
Capital	- 117 651 000.00	- 72 284 796.41	- 9 283 378.00	- 126 934 378.00
Operational	- 492 163 000.00	- 367 165 558.82	- 1 193 643.73	- 493 356 643.73
Gains and Losses				
Disposal of Fixed and Intangible Assets	-2 500 000.00	-	-	-2 500 000.00
Grand Total	- 3 418 028 587.00	- 1 804 513 711.27	- 15 632 163.46	- 3 433 660 750.46

The above table/ indicates total revenue (including capital transfers and contributions) of R 3 418 billion for the 2024/25 financial year adjusted to R 3 433 billion.

- Proposed increase of R15.6 million for revenue budget
- Transfer and subsidies increased is rollover grants from the previous financial year mainly Disaster Recovery Grant (**R7.4 million**) and WSIG (**R 1.9 million**)
- Rental of facilities is increased by 4.7 million based on performance to date

3.2.2 Adjustments Budget Financial Performance (expenditure)

The following table reflects the approved 2024/25 MTREF, the proposed 2024/25 Adjustment Budget (expenditure by source) and the subsequent outer years:

Expenditure	Approved Budget	Actual To date	Proposed Adjustment	Final Budget 2024/25
Bulk Purchases	853 967 088.00	661 612 629.20	247 645 541.20	1 101 612 629.20
Contracted Services	327 371 408.00	194 750 014.88	129 207 699.60	456 579 107.60
Debt impairment	988 750 000.00		- 483 984 424.04	504 765 575.96
Depreciation and Amortisation	165 836 853.00	61 783 644.58	- 20 000 000.00	145 836 853.00
Employee Related Cost	787 367 697.00	356 720 683.78	0.00	787 367 697.00
Interest; Dividends and Rent on Land	140 086 694.00	109 452 179.08	30 000 000.00	170 086 694.00
Inventory Consumed	515 279 389.00	280 966 606.84	37 868 491.52	553 147 880.52
Operating Leases	9 221 391.00	5 402 389.77	2 985 491.14	12 206 882.14
Operational Cost	135 377 467.00	-	19 541 094.81	154 918 561.81
Remuneration of Councillors	35 479 763.00	16 702 203.80	-	35 479 763.00
Transfers and Subsidies	28 360 647.00	18 727 360.48	9 000 000.00	37 360 647.00
TOTAL	3 987 098 397.00	1 766 641 309.67	-27 736 105.77	3 989 362 291.23

- Proposed decrease of R27.73 million for expenditure budget
- There are new upper limits to be considered
- No proposed adjustment for employee related cost even though salaries are increasing by 1.5% in March the approved budget will be sufficient.

3.3 Capital Budget

- An amount of R273.9 million was budget for the capital investment program for 2024/2025 financial year, the capital budget is adjusted to R304.1 million. Included in the R304.1 million total capital is R123.3 million to be funded from capital grants and R180.8 million to be funded from own funding.

The following table provides a summary of the municipality's 2024/25 capital budget per source

Source of funding	Original Budget	Rollover	Adjustments	Adjusted Budget
Integrated National Electrification Programme Grant	32 240 000.00	-	-	32 240 000.00
Municipal Infrastructure Grant	73 930 300.00	-	0.00	73 547 100.00
Disaster Recovery Grant	7 883 000.00	7 421 000.61	7 421 000.61	15 304 000.61
Water Service Infrastructure Grant	-	1 972 378.00	1 972 378.00	1 972 378.00
Financial Management Grant	250 000.00	-	-	250 000.00
Own Funding	159 600 000.00	-	32 030 000.00	180 830 000.00
Total	273 903 300.00	9 393 378.61	30 240 178.61	304 143 478.61

Project Name	Funding	Total Budget	Total Actual Incl. VAT	Proposed Mid-Year Adjustment	Final Budget Incl. VAT
Construction of stormwater concrete pipeline EXT22 Emba	MDRG	7 883 000.00	1 741 121.65	- 2 648 145.00	5 234 855.00
Rehabilitation of Stormwater System in Trichardt	MDRG	-	2 186 145.00	2 186 145.61	2 186 145.61
Rehabilitation of Stormwater System in Bethal	MDRG	-	3 509 443.56	4 240 000.00	4 240 000.00
Rehabilitation of Stormwater System in Leandra/Lebohang	MDRG	-	2 979 937.50	3 643 000.00	3 643 000.00
Kinross waste treatment plant	WSIG	-	-	1 972 378.00	1 972 378.00
Finance Interns Laptops	FMG	250 000.00	124 979.70	-	250 000.00
Emzinoni Substation Phase 3	INEP	32 240 000.00	21 041 941.52	-	32 240 000.00
Upgrading of Lebohang Stadium in Leandra (Phase 2)	MIG	10 000 000.00	-	-	10 000 000.00
Embalenhle Bulk Replacement/Upgrade (Phase1)	MIG	20 125 978.00	19 674 670.65	-	20 125 978.00
Emzinoni Bulk water supply	MIG	10 000 000.00	285 288.58	- 7 000 000.00	3 000 000.00
Upgrade of cement gravity main pipe in Kinross	MIG	-	-	1 285 832.00	1 285 832.00
Construction of Bulk water line and reservoir in Leandra	MIG	17 000 000.00	20 156 349.38	5 330 968.00	22 330 968.00
Procurement of Specialised Vehicles for Waste Management	MIG	16 804 322.00	16 804 322.00	-	16 804 322.00
Water Services	Operational Revenue	30 000 000.00	-	- 30 000 000.00	-
Acquisition of Smart Meters & Meter boxes	Operational Revenue	30 000 000.00	44 019 400.92	34 000 000.00	64 000 000.00
Furniture & Equipment (Executive and Council)	Operational Revenue	200 000.00	271 200.29	80 000.00	280 000.00
Furniture & Equipment (Facilities)	Operational Revenue	-	-	850 000.00	850 000.00
Vehicle clamps	Operational Revenue	-	-	50 000.00	50 000.00
Renovations & Upgrade of Bethal Council Chamber	Operational Revenue	-	-	250 000.00	250 000.00
Drilling of boreholes at Bethal, Emzinoni, Trichardt and eMbalenhle.	Operational Revenue	-	-	1 500 000.00	1 500 000.00
Replacement and upliftment of water meters within GMM (revenue enhancement)	Operational Revenue	-	-	7 000 000.00	7 000 000.00
Refurbishment of roof at eMbalenhle Ext 15 reservoir	Operational Revenue	-	-	8 000 000.00	8 000 000.00
Pressure management at Emba extension 15 reservoir bulk water line	Operational Revenue	-	-	1 000 000.00	1 000 000.00
Refurbishment of Secunda Reservoir booster pump station	Operational Revenue	-	-	3 500 000.00	3 500 000.00
Replacement of Evander Water AC Pipes	Operational Revenue	-	-	9 000 000.00	9 000 000.00
Cleaning of GMM Reservoirs (Water quality improvement)	Operational Revenue	-	-	1 000 000.00	1 000 000.00
Kinross waste treatment plant	Operational Revenue	3 000 000.00	-	-	3 000 000.00

Project Name	Funding	Total Budget	Total Actual Incl. VAT	Proposed Mid-Year Adjustment	Final Budget Incl. VAT
Resurfacing of road	Operational Revenue	20 000 000.00	-	-5 000 000.00	15 000 000.00
Refurbishment of Trichardt road	Operational Revenue			5 000 000.00	5 000 000.00
Chief Albert Luthuli Road Rehabilitation	Operational Revenue	10 000 000.00	-	-	10 000 000.00
Refurbishment of Leandra Offices	Operational Revenue	5 000 000.00	-	- 3 000 000.00	2 000 000.00
Refurbishment of Kinross offices	Operational Revenue	5 000 000.00	-	- 3 000 000.00	2 000 000.00
Upgrading of Emzinoni Stadium	Operational Revenue	5 000 000.00	-	- 3 500 000.00	1 500 000.00
Upgrading of Leandra Stadium	Operational Revenue	2 000 000.00	-	-	2 000 000.00
Brendon Village Electrification	Operational Revenue	5 000 000.00	-	-	5 000 000.00
Workshop Modernisation	Operational Revenue	3 000 000.00	-	- 3 000 000.00	-
Installation of sewer network; pipeline in Eendracht	Operational Revenue	5 200 000.00	-	-	5 200 000.00
Charl Cilliers sewer ratification and pump station	Operational Revenue	2 000 000.00	-	- 500 000.00	1 500 000.00
Sijongile Ndamase refurbishment	Operational Revenue	-	-	3 000 000.00	3 000 000.00
Furniture & Equipment (Community Services)	Operational Revenue	150 000.00	35 006.00	-	150 000.00
Furniture & Equipment (Financial Services)	Operational Revenue	150 000.00	159 076.86	-	150 000.00
Furniture and OE Technical services	Operational Revenue	150 000.00	9 430.00	-	150 000.00
Furniture & Equipment (Technical Services)	Operational Revenue	150 000.00	155 072.90	-	150 000.00
Furniture & Equipment (Corporate Services)	Operational Revenue	150 000.00	53 348.50	-	150 000.00
Furniture & Equipment (Planning and Development)	Operational Revenue	150 000.00	184 345.00	-	150 000.00
Furniture & Equipment (MM's Office)	Operational Revenue	100 000.00	17 930.24	-	100 000.00
Munsoft Hardware Upgrade	Operational Revenue	1 200 000.00	185 989.50	-	1 200 000.00
Insurance	Operational Revenue	5 000 000.00	-	-	5 000 000.00
Acquisition of Fleet	Operational Revenue	25 000 000.00	5 505 231.54	- 5 000 000.00	20 000 000.00
Computer Equipment	Operational Revenue	2 000 000.00	1 693 264.45	-	2 000 000.00
TOTAL		273 903 300.00	145 720 670.73	30 240 178.61	304 143 478.61