

REPORT TO COUNCIL: 26 OCTOBER 2010
OFFICE OF THE EXECUTIVE MAYOR

STATEMENT OF FINANCIAL PERFORMANCE AND THE IMPLEMENTATION OF THE
2010/11 BUDGET FOR THE QUARTER ENDING 30 SEPTEMBER 2010

1. BACKGROUND

In terms of Section 52 (d) of the Municipal Finance Management Act No 56, 2003 Chapter 7, the Mayor must within 30 (thirty) days of the end of each quarter, submit a report to Council on the implementation of the budget and the financial state of affairs of the Municipality.

The current report approaches the Review in the following order:

- 2. Executive Summary on the Implementation of the Budget and the Financial Affairs of the Municipality*
- 3. Statement of Financial Performance*
- 4. Capital Expenditure*
- 5. Expenditure on Conditional Grants - DoRA Allocation*
- 6. Restructuring Grant Milestones*
- 7. Recommendation*

2. EXECUTIVE SUMMARY ON THE IMPLEMENTATION OF THE BUDGET AND THE FINANCIAL AFFAIRS OF THE MUNICIPALITY

2.1 Service Delivery and Budget Implementation Plan

The Municipal Finance Management Act requires a municipality's Budget and Integrated Development Plan to be mutually consistent and credible. The Service Delivery and Budget Implementation Plan is used by BCM as a tool to monitor and measure the implementation of the budget. The actual performance against the key performance indicators and targets is monitored and measured on a three quarters basis and corrective action is put in place to address variances.

A report on the performance against SDBIP indicators and target is contained in Annexure C.

2.2 Summary of the Financial Performance and Position of the Municipality

Liquidity position

BCM's liquidity has increased slightly when compared to the situation at the end of June 2010. The Current Ratio, which indicates the ability of Municipality's current assets to cover its liabilities, is currently at 1.50:1 compared to 1.38:1 for the 2009/10 financial year end results. The norm for this ratio is 2:1. The major contributing factor to the low ratio is the decrease in available cash.

Debtors Collection Rate and Outstanding Debtors

The average debtors' collection rate for the twelve months ending 30 September 2010 is 94.87% and 83.07% for the three months ending 30 September 2010. Buffalo City Municipality is currently experiencing the affects of the global economic crisis that originated in 2007/8 which affected the consumers' ability to service their debts as a result of the increased unemployment rate and the cost of living. This is evident in the trends that Buffalo City Municipality's average annual revenue collection rate has slowly declined over the past years from the high of 96.02%. This percentage includes arrear debt being collected. The twelve month average including arrear debt is a formula prescribed by National Treasury which municipalities use to report their collection rate.

Total debtors outstanding as at 30 September 2010 amounts to R512.30 million (Households: R366.8 million, Business: R83.5 million, Government: R13.1 million, Other: R48.9 million). The debtors' book has increased by 26% when compared to 30 June 2010 which was R410.75 million. The increase in debtors' book is an indication of a decreased collection rate and a decrease in BCM's cash flow. Although the Credit Control policy is being implemented, non-payment remains a problem. One of the reasons why the debtor's book has increased is the prevalence of meter tampering, which renders debt collection ineffective. The matter is being addressed by the relevant Directorates to ensure that controls are in place to enhance the collection rate and to reduce the increase in the debtor's book.

The ratio of outstanding debtors' to revenue is 16.8%. This has increased when compared to 15.3% on 30 June 2010. The Directorate of Financial Services is investigating a Revenue Enhancement Strategy to improve the cash flow situation, including strict enforcement of credit control policy. A task team comprising of Engineering and Finance personnel has been established to curb water and electricity losses.

Long-Term Debt Profile

Buffalo City Municipality has a long term loan facility with the Development Bank of Southern Africa (DBSA) to the amount of R750 million. This is utilized to predominantly fund the capital infrastructure development programme mainly for the previously disadvantaged areas.

The total long term borrowing of the municipality as at 30 September 2010 amounts to R605.91 million (Refer to Annexure F). The ratio of debt to total assets is 4% as at 30 September 2010. The debt to revenue ratio is 24.4 % and has slightly increased when compared to 30 June 2010 which was 24.3%.

In terms of our cash flow projections the loan facility will be fully utilised by 30 June 2011 and the debt to revenue ratio is anticipated to exceed the benchmark/ceiling of 35% as per National Treasury Guidelines.

This therefore indicates that the municipality will rely totally on Grant Funding to fund all future capital infrastructure development in Buffalo City due to the following:

- Debt to revenue ceiling exceeded which gives an indication on whether or not the municipality does have capacity to borrow or ability to service long term debt
- Declining cash flow due to declining collection rate and therefore resulting in non-availability of own funding to fund capital infrastructure development.

In the past and during the current period the Municipality maintained an 80:20 grant funding to own funding ratio. Looking at BCM's the current financial position if our debtors collection rate does not improve to at least 95% the municipality will not be able to fund the capital infrastructure programme from its own funds in 2010/11 Medium Term Revenue and Expenditure Framework (MTREF) Budget period.

Cash flow

The decline in the revenue collection rate as well as the other contributing factors has slowly resulted in our cash reserves being eroded. Should this continue, the Municipality will reflect a negative cash flow position by the end of February 2011.

Table 1 : 2010/11 Cash Flow Forecast using 93% Collection Rate

	2010/2011 R
Opening Balance 1 October 2010	232,808,842
Add : REVENUE	1,864,421,513
Less : EXPENDITURE	2,271,801,962
Closing Balance at 30 June 2011 (Unfavorable)	(174,571,607)

Due to the cash flow forecast projected in the table above, NEW own funded projects that are budgeted in the 2010/11 current allocation have been blocked until such time they become cash backed.

2.3 Financial Impact of the Performance to date on the Medium Term Revenue and Expenditure Framework and Long-Term Sustainability

2.3.1 Division of Revenue Act (DoRA) Conditional Grants

As at 30 September 2010 the total expenditure on DoRA allocations amounts to R30.45 million which is 10% of the allocated funding of R297.68 million. If the municipality does not fully spend the allocated funding during the current financial year the provision of the Division of Revenue Act including MFMA Circular 51 will apply.

In terms of MFMA Circular 51 the Municipality

- must determine on 30 June 2011 what portion of the national conditional grants received is unspent, and
- must thereafter submit a motivation to the National Treasury by 16 August 2011 indicating that the unspent portion is committed to identifiable projects.

BCM will therefore not be able to roll-over unspent conditional grants to the 2011/12 financial year until we have received a written approval from the National Treasury. BCM will not be able to spend unspent conditional grants that have been rolled over until they are re-appropriated in a National Adjustment Budget passed by Parliament and thereafter by a Municipal Adjustment Budget in terms of Section 28(2) (b) of the MFMA and Regulation 23(3) of the Municipal Budget and Reporting Regulations.

Each municipality must repay all unspent conditional allocation, in respect of which National Treasury has not given the municipality written permission to retain, directly to the National Revenue Fund by 15 October 2011. If the municipality fails to repay such unspent grants the National Treasury will offset such amount against the municipality's November 2011 Equitable Share Allocation.

The process as outlined will therefore result in a delay in the implementation of projects that are funded from the unspent 2010/11 DoRA allocations in the 2011/12 financial year.

In a situation where the municipality does not get permission from National Treasury to retain the funds, this may lead to the Municipality being unable to meet its contractual obligation to the service providers. Failure to meet contractual obligations might lead to adverse legal implications against the municipality.

2.3.2 Operating Projects

Operating projects expenditure for the period ending 30 September 2010 is 20.13% (R47.21 million) of the 2010/11 adjustment budget of R234.51 million.

New own funded projects that are budgeted in the 2010/11 current allocation to the amount of R38 million (16% of total approved operating projects) are currently on hold due to the fact that they are not cash backed. The operating projects expenditure for the period ending 30 September 2010, excluding projects that are on hold, is 23%.

Operating projects are mainly funded from conditional and unconditional grants. The under spending on these grants will have a negative impact on BCM securing funding in future from the respective funders.

If the municipality does not fully spend the allocated conditional grant funding for the operating projects during the current financial year the provision of the Division of Revenue Act including MFMA Circular 51 will apply.

2.3.3 Capital Projects

The total expenditure on capital projects as at 30 September 2010 amounts to 6% (R38.98 million) of the adjusted budget of R682.32 million for the 2010/11 financial year and 23% of the projected cash flows of R170.58 million. About 54% of the capital budget is funded from grants (conditional grants 44% and unconditional grants 10%). The provision of the Division of Revenue Act including MFMA Circular 51 will therefore apply if we do not fully spend the conditional grant funding in the current financial year.

New own funded projects that are budgeted in the 2010/11 current allocation to the amount of R181.8 million (27% of total approved capital budget) are currently on hold due to the fact that they are not cash backed. The capital expenditure for the period ending 30 September 2010, excluding the projects that are on hold, is 8%.

Table 1: Performance Summary

<u>Overall Operating results</u>		<u>Cash Management</u>	
Income	R 847,253,817	Cash on hand	R 49,496,177
Expenditure	R 810,682,639	Total value of investments	R 577,000,462
Transfer to & from Reserves	R 75,956,069	Total investments - own funds	R 233,612,115
Operating Surplus	R 112,527,247	Total conditional grants	R 343,388,347
		Total Loans	R 605,908,148
<u>Debtors</u>		<u>Surplus per Service</u>	
Total debtors book (including current)	R 512,297,247	Water	R18,767,349
Total debtors - Government	R 13,058,230	Electricity	R12,243,800
Total debtors - Business	R 83,506,155	Refuse	R21,710,311
Total debtors - Households	R 366,804,379	Sewerage	R32,301,165
Total debtors - Other	R 48,928,484		
Total debt written off	R 2,658,455		
Year to date collection	R 403,930,101		
<u>Capital Expenditure</u>		<u>Operating Projects Expenditure</u>	
Capital Expenditure as a % of total approved adjusted budget (2009/10: 3%)	6%	Operating Expenditure as a % of total approved adjusted budget (2009/10: 5%)	20%
Capital Expenditure as a % of total approved adjusted budget excluding blocked projects	8%	Operating Expenditure as a % of total approved adjusted budget excluding blocked projects	23%
<u>Financial</u>		<u>Human Resources</u>	
Operating surplus for the period	R 112,527,247	Staff appointments	171
Debtors collection ratio %	83.1%	Staff terminations	65
YTD all grants and subsidies	R 216,023,508	Total staff complement	4,682
Net Debtors to Annual Income	16.8%	Total overtime paid for the month	R 3,408,227
Percentage of Creditors paid within terms	100%	Number of funded vacant posts	379
Current ratio	1.50:1	Salary bill - Councilors	R 5,566,960
Long Term Borrowings to Total Assets	4.0%	Salary bill - Officials	R 209,164,300
Long Term Borrowings to Revenue	24.4%	Workforce costs as a % of income	24.7%

3. STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDING 30 SEPTEMBER 2010

The Statement of Financial Performance is presented on the **accrual basis**, which identifies budgeted revenue and expenditure to accrued revenue and expenditure and the corresponding surplus generated for the period.

Table 2: Statement of Financial Performance for the Period Ending 30 September 2010

EC125 Buffalo City - Table C4 Consolidated Monthly Budget Statement - Financial Performance (revenue and expenditure) - M03 September										
Description	Ref	2009/10	Budget Year 2010/11							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
Revenue By Source										
Property rates		443,000	487,055		67,971	145,486	144,762	724	0%	487,055
Property rates - penalties & collection charges								-		
Service charges - electricity revenue		810,361	988,462		76,778	243,953	226,360	17,593	8%	988,462
Service charges - water revenue		201,289	225,169		3,798	63,051	54,219	8,832	16%	225,169
Service charges - sanitation revenue		146,597	162,723		20,627	52,636	49,239	3,397	7%	162,723
Service charges - refuse revenue		139,180	153,005		12,514	38,838	37,934	905	2%	153,005
Service charges - other								-		
Rental of facilities and equipment		9,996	11,620		643	1,713	2,905	(1,192)	-41%	11,620
Interest earned - external investments		39,662	32,314		2,089	5,546	8,078	(2,532)	-31%	32,314
Interest earned - outstanding debtors		27,505	40,965		1,691	5,132	10,241	(5,109)	-50%	40,965
Dividends received		86	60				15	(15)	-100%	60
Fines		8,257	9,706		556	1,864	2,426	(563)	-23%	9,706
Licences and permits		14,268	14,017		1,213	3,750	3,504	245	7%	14,017
Agency services								-		
Transfers recognised - operational		133,492	234,513		27,834	47,207	53,580	(6,373)	-12%	234,513
Other revenue		561,976	713,096		10,577	238,077	337,304	(99,226)	-29%	713,096
Gains on disposal of PPE								-		
Total Revenue (excluding capital transfers and contributions)		2,535,669	3,072,706	-	226,292	847,254	930,568	(83,314)	-9%	3,072,706
Expenditure By Type										
Employee related costs		753,200	906,833		75,254	209,164	226,708	(17,544)	-8%	906,833
Remuneration of councillors		19,691	25,238		1,798	5,567	6,309	(742)	-12%	25,238
Debt impairment		94,469	77,681		6,473	19,420	19,420	-		77,681
Depreciation & asset impairment		342,031	476,021		39,668	119,005	119,005	-		476,021
Finance charges		69,037	100,889		8,407	25,222	25,222	-		100,889
Bulk purchases		588,878	714,565		54,922	226,186	241,658	(15,472)	-6%	714,565
Other materials								-		
Contracted services		8,138	7,861		533	1,163	1,965	(802)	-41%	7,861
Transfers and grants		9	5,567			8	1,392	(1,384)	-99%	5,567
Other expenditure		757,431	1,061,771		86,068	204,948	265,443	(60,495)	-23%	1,061,771
Loss on disposal of PPE								-		
Total Expenditure		2,632,884	3,376,427	-	273,124	810,684	907,124	(96,440)	-11%	3,376,427
Surplus/(Deficit)										
		(97,215)	(303,721)	-	(46,832)	36,570	23,444	(179,754)	(0)	(303,721)
Transfers recognised - capital		148,883	303,824		25,319	75,956	75,956			303,824
Contributions recognised - capital										
Contributed assets										
Surplus/(Deficit) after capital transfers & contributions		51,667	103	-	(21,514)	112,526	99,400			103
Taxation								-		
Surplus/(Deficit) after taxation		51,667	103	-	(21,514)	112,526	99,400			103
Attributable to minorities										
Surplus/(Deficit) attributable to municipality		51,667	103	-	(21,514)	112,526	99,400			103
Share of surplus/ (deficit) of associate										
Surplus/ (Deficit) for the year		51,667	103	-	(21,514)	112,526	99,400			103

Notes to the Statement of Financial Performance for the Period Ending 30 September 2010

1. Transfers Recognised – Operational

This relates to operating projects, income is recognised as the expenditure is incurred.

2. Other Revenue

Other revenue which is made up of numerous miscellaneous items reflects a cash inflow of R238.08 million as against an estimated budget of R337.30 million. Included in the other revenue received to date is an amount of R216.2 million in respect of Grants and Subsidies.

3. Debt Impairment

This is in respect of provision for bad debts.

4. Employee Related Costs

The employee related costs were under spent by 8%. This is due to vacant funded posts that are not yet filled by the various Directorates. The Councillors' remunerations were under spent by 12%.

Table3: Summary of the Vacant Funded Posts per Directorate

Directorate	Total Number	30-60 Days	60-180 Days	More than 180 Days
Directorate of Executive Support Services	10	2	5	3
Office of the Municipal Manager	6		3	3
Directorate of Chief Operations Officer	10	1	5	4
Directorate of Finance	27	7	9	11
Directorate of Corporate Services	21	2	15	4
Directorate of Engineering Services	150	21	43	86
Directorate of Planning & Economic Development	35	1	11	23
Directorate of Health and Public Safety	31	9	13	9
Directorate of Community Services	89	13	34	42
Total Vacant Funded Posts	379	56	138	185

Table 4: Analysis of Overtime

Overtime	2010/2011 Annual Budget R	2010/2011 YTD Budget R	2010/2011 YTD Expenditure R	2010/2011 Variance R	2010/2011 Variance %
Directorate of Executive Support Services	1,051,001	262,750	179,262	83,489	31.77
Directorate of The Municipal Manager	99,381	24,845	13,702	11,144	44.85
Directorate of Chief Operations Officer	22,722	5,681	8,618	(2,938)	(51.72)
Directorate of Finance	892,446	223,112	118,180	104,932	47.03
Directorate of Corporate Services	399,276	99,819	83,686	16,133	16.16
Directorate of Engineering Services	6,721,834	1,680,459	2,291,826	(611,367)	(36.38)
Directorate of Development Planning	687,334	171,834	90,632	81,202	47.26
Directorate of Community Services	13,781,388	3,445,347	2,047,028	1,398,319	40.59
Directorate of Health and Public Safety	5,679,108	1,419,777	1,701,564	(281,787)	(19.85)
Total	29,334,490	7,333,623	6,534,497	799,126	10.90

COMMENTS FROM DIRECTORATES ON OVER EXPENDITURE ON OVERTIME**DIRECTORATE OF THE CHIEF OPERATING OFFICER**

Overtime is spent when there is a need by the personnel working in Beneficiary Administration & Relocation and Beneficiary Education who have to work odd hours because of no availability of beneficiaries on normal working hours. The overtime spent by each employee each month is within the acceptable 40 hrs per month. Expenditure is incurred as demand increases.

DIRECTORATE OF ENGINEERING SERVICES**Electrical Operations**

Over expenditure due to commissioning of new switchgear, staff and vehicle shortages, vandalism, theft of electrical equipment and emergency repairs carried out after-hours with electricity outages. About 36.38% of all overtime worked is Emergency work in all areas of East London and King Williams Town / Bisho due to standby, vandalism, theft, etc.

**Sanitation
Treatment**

The treatment section operates and maintains 14 facilities.

Treatment is an ongoing process as wastewater flows on a continuous basis. The staffing of a treatment works is based on Government Regulation No. R 2834 dated 27 December 1985. These regulations were drawn up under the Waste Act, 1956 (Act 54 of 1956) which has been replaced by the National Waste Act, but the regulation is still applicable under the new act.

The levels of staff required are determined based on the flow to the works and the complexity of the operation. In terms of the guidelines the plants are currently not staffed accordance with the act due to vacancies which exist within the section.

Overtime has been incurred as listed below but not limited to:-

- Shift workers limited to 40 hrs per week. Previously 46 hrs per week. Reduction in staff hours to man plants

- Absenteeism
- Sick leave
- Maintaining staff levels as stipulated by the act.
- The time periods taken to fill funded vacant posts
- Planned maintenance can only be carried at periods of low flow (early mornings).
- Emergencies

Conveyance

A spillage not attended to contravenes Statuary and Environmental Legislation as contained in section 19 in the Environmental Act as laid down in Regulation Gazette no 599, Vol. 387, No 1261, regulation R1182 and R1183 all dated 5 September 1997.

The conveyance section operates and maintains 2500 km of sewers, 103 pump stations and 50 000 manholes with in excess of 100 000 connections.

Overtime has been incurred as listed below but not limited to:-

- Attending to blockages reported to control by consumers after hours.
- Emergencies (burst rising mains etc.)
- Attending to alarms received via the telemetry system of faults at pump stations i.e. tripped pumps etc.

Night soil

A spillage not attended to contravenes Statuary and Environmental Legislation as contained in section 19 in the Environmental Act as laid down in Regulation Gazette no 599, Vol. 387, No 1261, regulation R1182 and R1183 all dated 5 September 1997.

The nightsoil section operates a fleet of 10 vacuum tankers clearing approximately 820 loads per month.

Overtime has been incurred as listed below but not limited to:-

- Due Emergencies (burst rising mains etc.)

The wastewater branch has put in place procedures to authorize overtime and at all times to limit any work after hours where this is operationally possible.

ROADS

Roads Maintenance Overtime Expenditure is due to emergencies. Expenditure for the month of September is 2%.

Water Supply Services Division

Overtime is due to callouts, standby and shifts for emergencies in Coastal areas, midland areas and inland areas.

DIRECTORATE OF HEALTH & PUBLIC SAFETY

Overtime incurred due to staff in the Fire Dept & Traffic Dept having to carry out duties which occurs after hours and as a result of unplanned contingencies & emergencies?

5. Other Expenditure

Other expenditure includes operating projects, general expenses as well as repairs and maintenance. The major contributing factor to the under expenditure of R60.5 million is general expenses (R31 million), followed by repairs & maintenance (R17 million) and operating projects (R11.4 million).

Table 5: Repairs and Maintenance

Repairs & Maintenance	2010/2011 Annual Budget R	2010/2011 YTD Budget R	2010/2011 YTD Expenditure R	2010/2011 Variance R	2010/2011 % of the YTD Budget
Directorate of Executive Support	2,583,575	645,894	287,988	357,906	44.59
Directorate of The Municipal Manager	45,185	11,296	4,230	7,066	37.45
Directorate of Chief Operations Officer	21,525	5,381	5,490	(109)	102.03
Directorate of Finance	1,856,208	464,052	179,797	284,255	38.75
Directorate of Corporate Services	4,138,765	1,034,691	359,572	675,119	34.75
Directorate of Engineering Services	188,392,851	47,098,213	34,979,532	12,118,681	74.27
Electricity	98,809,474	24,702,369	9,415,441	15,286,928	38.12
Water	22,516,872	5,629,218	3,956,431	1,672,787	70.28
Sanitation	19,526,725	4,881,681	1,369,159	3,512,522	28.05
Other	47,539,780	11,884,945	20,238,501	(8,353,556)	170.29
Directorate of Development Planning	12,724,977	3,181,244	2,353,224	828,020	73.97
Directorate of Community Services	19,101,471	4,775,368	3,268,185	1,507,183	68.44
Directorate of Health and Public Safety	5,860,296	1,465,074	588,685	876,389	40.18
TOTAL	234,724,853	58,681,213	42,026,704	16,654,510	71.62

The table above reflects repairs and maintenance expenditure against budget. Repairs and Maintenance expenditure efficiency ratio for the period ending 30 September 2010 is 71.62% (R42.03 million). This indicates an increase in expenditure pattern when compared to the previous financial year (2009/2010: 65.36%). The expenditure is generally on track and is expected to improve in the next coming quarters of the financial year. Refer to **Annexure B: SC13c** (repairs and maintenance by asset class).

Table 6: Operational Projects

Directorate	2010/2011 Approved Budget R	2010/2011 Adjusted Budget R	2010/2011 YTD Exp R	2010/2011 Adj. Budg. Less Exp R	2010/2011 % Adjusted Budget
Directorate of Executive Support Services	26,820,000	35,307,277	1,599,633	33,707,644	5%
Directorate of The Municipal Manager	565,000	7,667,891	421,618	7,246,273	5%
Directorate of Chief Operations Officer	302,962	2,904,440	111,600	2,792,840	4%
Directorate of Finance	14,600,000	16,498,876	1,064,684	15,434,192	6%
Directorate of Corporate Services	10,812,000	11,496,282	501,080	10,995,202	4%
Directorate of Engineering Services		227,690	540	227,150	0%
Directorate of Development Planning	16,201,600	24,995,390	281,215	24,714,175	1%
Housing Projects	40,383,450	134,122,525	43,226,600	90,895,925	32%
Directorate of Community Services	750,000	1,050,930		1,050,930	0%
Directorate of Health and Public Safety	170,000	241,218		241,218	0%
TOTAL	110,605,012	234,512,519	47,206,970	187,305,549	20%

The table above reflects operating projects expenditure against budget. Operating projects expenditure for the period ending 30 September 2011 is R47.21 million which is 20% of the adjustment budget of R234.51 million (2009/10: 4.62%) and 80.52% of the projected cash flows of R58.63 million. Comments on the under expenditure are disclosed in **Annexure D**.

The own funded projects that are budgeted in the 2010/11 current allocation to the amount of R38 million are currently on hold due to the fact that they are not cash backed. The operating projects expenditure for the period ending 30 September 2010 excluding the projects that are on hold is 23%.

Table 6.1: Operational Projects Excluding Blocked Projects

Directorate	2010/2011 Approved Budget R	2010/2011 Adjusted Budget R	2010/2011 YTD Exp R	2010/2011 Adj. Budg. Less Exp R	2010/2011 % Adjusted Budget
Directorate of Executive Support Services	21,892,000	30,379,276	211,535	30,167,741	1%
Directorate of The Municipal Manager	0	7,102,891	421,618	6,681,273	0%
Directorate of Chief Operations Officer	0	2,904,440	111,600	2,792,840	4%
Directorate of Finance	1,200,000	3,398,876	262,892	3,135,984	8%
Directorate of Corporate Services	5,750,000	6,434,282	500,000	5,934,282	8%
Directorate of Engineering Services	0	227,690	540	227,150	0%
Directorate of Development Planning	3,291,600	12,085,390	69,323	12,016,067	1%
Housing Projects	40,383,450	134,122,525	43,226,600	90,895,925	32%
Directorate of Community Services	0	300,930	0	300,930	0%
Directorate of Health and Public Safety	0	71,218	0	71,218	0%
TOTAL	72,517,050	197,027,518	44,804,108	152,223,410	23%

4. CAPITAL EXPENDITURE

The total expenditure on capital projects as at 30 September 2010 amounts to 6% (R38.98 million) of the adjusted budget of R682.32 million for the 2010/11 financial year and 23% of the projected cash flows of R170.58 million. Comments on the under expenditure are disclosed in **Annexure E**. Refer to **Annexure A: C5, Annexure B: SC12, SC13a and SC13b**.

The own funded projects that are budgeted in the 2010/11 current allocation to the amount of R181.8 million are currently on hold due to the fact that they are not cash backed. The capital expenditure for the period ending 30 September 2010 excluding the projects that are on hold is 8%.

Table 7 identifies the actual Capital Expenditure per Funding against budget.

Table 7: Capital Expenditure per Funding Source against Budget

Funding	2010/2011 Approved Capital Budget	2010/2011 Rollover Adjustment Budget	2010/2011 Expenditure YTD	2010/2011 Variance	2010/2011 % Expenditure vs. Rollover Adjustment Budget
Capital Replacement Reserve	179,964,598	250,971,294	5,016,171	245,955,124	2%
DBSA LOAN c/o Phase 4	2,397,526	36,346,079	2,182,000	34,164,079	6%
DBSA LOAN c/o Phase 5	0	25,095,360	987,233	24,108,127	4%
Total Own Funding	182,362,124	312,412,734	8,185,404	304,227,330	3%
Dept of Econ Dev, Environ Affairs and Tour c/o	0	5,239	0	5,239	0%
Department of Land Affairs c/o	0	2,015,676	0	2,015,676	0%
Dept Of Local Gov and Traditional Affairs c/o	0	144,204	0	144,204	0%
Dept of Sports Arts & Culture c/o	0	22,204,431	0	22,204,431	0%
Department of Science and Technology c/o	0	390,580	0	390,580	0%
Electricity Demand Side Management Grant	4,000,000	4,000,000	41,644	3,958,356	1%
Equitable Share c/o	0	3,317,159	0	3,317,159	0%
European Commission c/o	0	227,469	0	227,469	0%
Integrated National Electrification Programme	20,000,000	20,000,000	0	20,000,000	0%
Leiden Platform	2,588,000	2,588,000	0	2,588,000	0%
Leiden Platform c/o	0	608,065	0	608,065	0%
Dept of Local Government and Housing	9,800,000	9,800,000	744,783	9,055,217	8%
Dept of Local Government and Housing c/o	0	30,692,231	0	30,692,231	0%
Municipal Infrastructure Grant	190,004,332	190,004,332	30,008,336	159,995,996	16%
Neighbourhood Development Partnership Grant	10,500,000	10,500,000	0	10,500,000	0%
Office of the Premier	0	500,000	0	500,000	0%
Disaster Management Fund c/o	0	434,401	0	434,401	0%
Public	1,000,000	1,000,000	0	1,000,000	0%
Public Transport Infrastructure Grant	71,478,000	71,478,000	0	71,478,000	0%
Total Grant Funding	309,370,332	369,909,787	30,794,763	339,115,025	8%
TOTAL PER FUNDING	491,732,456	682,322,521	38,980,166	643,342,355	6%

Table 8 identifies the actual Capital Expenditure per Directorate against budget.

Table 8: Actual Expenditure per Directorate against Budget

Directorate	2010/2011 Approved Capital Budget	2010/2011 Rollover Adjustment Budget	2010/2011 Expenditure YTD	2010/2011 Variance	2010/2011 % Expenditure vs. Rollover Adjustment Budget
Executive Support Services	9,203,000	42,479,647	0	42,479,647	0%
Municipal Manager's Office	200,000	200,000	0	200,000	0%
Chief Operations Officer	10,430,000	41,145,231	744,783	40,400,448	2%
*Directorate of Financial Services	6,563,000	17,273,798	53,537	17,220,261	0%
Directorate of Corporate Services	6,053,652	9,238,103	0	9,238,103	0%
Directorate of Engineering Services	274,311,855	327,971,480	30,102,747	297,868,732	9%
Directorate of Development Planning	129,274,934	144,883,042	3,260,487	141,622,556	2%
Directorate of Community Services	38,618,540	55,786,496	2,634,933	53,151,563	5%
Directorate of Health & Public Safety	17,077,475	43,344,724	2,183,680	41,161,044	5%

TOTAL PER DIRECTORATE	491,732,456	682,322,521	38,980,166	643,342,355	6%
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* Note: That the budget for the Directorate of Finance includes an amount of R9.1 million for Insurance Asset Replacement for the entire Buffalo City Municipality. The expenditure percentage with-out Insurance Asset Replacement is 1%.

Table 8.1: Actual Expenditure per Directorate against Budget (Excluding Blocked Projects)

Directorate	<u>2010/2011 Approved Capital Budget</u>	<u>2010/2011 Rollover Adjustment Budget</u>	<u>2010/2011 Expenditure YTD</u>	<u>2010/2011 Variance</u>	<u>2010/2011 % Expenditure vs. Rollover Adjustment Budget</u>
Executive Support Services	2,588,000	35,864,647	0	35,864,647	0%
Municipal Manager's Office	0	0	0	0	0%
Chief Operations Officer	10,300,000	40,992,231	744,783	40,247,448	2%
Directorate of Financial Services	0	1,605,298	53,537	1,551,761	3%
Directorate of Corporate Services	0	3,173,451	0	3,173,451	0%
Directorate of Engineering Services	189,211,855	242,671,480	28,973,225	213,698,255	12%
Directorate of Development Planning	83,478,000	107,198,182	3,153,149	104,045,033	3%
Directorate of Community Services	19,100,000	35,617,956	2,543,719	33,074,237	7%
Directorate of Health & Public Safety	4,692,477	33,357,252	2,183,680	31,173,572	7%
TOTAL PER DIRECTORATE	309,370,332	500,480,497	37,652,093	462,828,404	8%

Table 9 below gives a breakdown of the spending per Service.

Table 9: Actual Expenditure per Service against Budget

Services	<u>2010/2011 Approved Capital Budget</u>	<u>2010/2011 Rollover Adjustment Budget</u>	<u>2010/2011 Expenditure YTD</u>	<u>2010/2011 Variance</u>	<u>2010/2011 % Expenditure vs. Rollover Adjustment Budget</u>
Water	41,500,000	61,058,995	8,542,356	52,516,639	14%
Waste Water	70,711,855	73,690,092	6,697,438	66,992,655	9%
Electricity	45,800,000	49,446,010	74,795	49,371,215	0%
Roads and Stormwater	95,500,000	105,254,172	14,788,159	90,466,014	14%
Housing	9,800,000	40,492,231	744,783	39,747,448	2%
Transport Planning	117,174,934	120,999,737	2,593,661	118,406,076	2%
Cleansing	17,500,000	22,070,706	793,410	21,277,296	4%
Amenities	18,100,000	26,719,316	1,565,853	25,153,463	6%
Environmental Services	2,500,000	5,327,934	263,955	5,063,979	5%
Health Services	3,392,477	3,392,477	1,680	3,390,797	0%
Public Safety	13,147,526	39,414,775	2,182,000	37,232,775	6%
Support Services	44,075,664	91,897,560	65,252	91,832,308	0%
Other	12,530,000	42,558,516	666,825	41,891,690	2%
TOTAL PER SERVICE	491,732,456	682,322,521	38,980,166	643,342,355	6%

Table 9.1: Actual Expenditure per Service against Budget (Excluding Blocked Projects)

Services	2010/2011 Approved Capital Budget	2010/2011 Rollover Adjustment Budget	2010/2011 Expenditure YTD	2010/2011 Variance	2010/2011 % Expenditure vs. Rollover Adjustment Budget
Water	29,500,000	49,058,995	8,542,356	40,516,639	17%
Waste Water	60,211,855	63,190,092	6,382,317	56,807,776	10%
Electricity	24,500,000	28,146,010	41,644	28,104,366	0%
Roads and Stormwater	75,500,000	85,254,172	14,006,909	71,247,264	16%
Housing	9,800,000	40,492,231	744,783	39,747,448	2%
Transport Planning	83,478,000	95,414,877	2,593,661	92,821,216	3%
Cleansing	3,500,000	8,070,706	793,410	7,277,296	10%
Amenities	13,100,000	21,719,316	1,486,354	20,232,962	7%
Environmental Services	2,500,000	5,327,934	263,955	5,063,979	5%
Health Services	692,477	692,477	1,680	690,797	0%
Public Safety	4,000,000	32,664,775	2,182,000	30,482,775	7%
Support Services	2,588,000	40,643,396	53,537	40,589,859	0%
Other	0	29,805,516	559,488	29,246,027	2%
TOTAL PER SERVICE	309,370,332	500,480,497	37,652,093	462,828,404	8%

5. **EXPENDITURE ON CONDITIONAL GRANTS - DORA ALLOCATION**

The 2010/11 financial year adjusted budget includes a DoRA allocation of R297.68. The total expenditure on DoRA allocation as at 30 September 2010 amounts to R30.45 million which is 10% of R297.68 million.

Table 10 below reflects the year to date expenditure on 2010/11 Conditional Grants (DoRA allocation).

Table 10: Actual Expenditure per Funding against Budget

Funding/Grant	2010/2011 Approved Budget R	2010/2011 YTD Expenditure R	2010/2011 Variance R	2010/2011 Expenditure vs. Approved Budget %
Finance Management Grant	1,200,000	175,675	1,024,325	15%
Integrated National Electrification Programme	20,000,000	0	20,000,000	0%
Electricity Demand Side Management Grant	4,000,000	41,644	3,958,356	1%
Municipal Infrastructure Grant	190,004,332	30,008,336	159,995,996	16%
Public Transport Infrastructure Grant	71,478,000	0	71,478,000	0%
Neighbourhood Development Partnership Grant	10,500,000	0	10,500,000	0%
Municipal Systems Improvement Grant	500,000	220,621	279,379	44%
TOTAL	297,682,332	30,446,276	267,236,056	10%

Comments on under-expenditure

(a) Finance Management Grant

The funding will be fully utilized on interns' salaries, budget reforms as well as staff training.

(b) Integrated National Electricity Provider

This funding has been provided for bulk infrastructure and electrification of RDP houses within BCM. The bulk infrastructure project is the provision of a new 132/11kV bulk substation that will be situated at the Queens Park Zoo. This project is proceeding with work being carried out at the subsidiary site in West Bank sub-station. All major equipment has been ordered and work will commence on the main site once approval of the EIA has been finalized. It is estimated that this should be completed by the middle of November 2010.

Funding has also been provided for the electrification of RDP houses in three areas within Buffalo City:

- Reeston 1000
- Kwa cliff 350
- Potsdam / Mdantsane 260

All tenders have been advertised. It is estimated that contractor should be on site by middle of November 2010. Once on site expenditure will be incurred with all funds expended by the end of June 2011.

(c) Electricity Demand Side Management

The implementation of this project will contribute towards the reduction of energy consumption on the electricity networks and thus reduce the energy demand. The total estimated cost to complete phase 2 is estimated at R4M which constitutes an estimated 2500 new installations. These funds will be expended over the 2010/11 financial year.

The electricity department has appointed contractors that carry out all logistics and Operations and Maintenance within the Area where this project will be implemented

The first batch of a 1000 fittings has arrived, no installation has taken place as there are no lamps available in the country, expected date of arrival is end October 2010.

A monthly cost will also be incurred due to the verification and measurement that is required to be provided to the DOE in-terms of the contract.

(d) Municipal Infrastructure Grant

The grant fund is fully committed for the financial year mainly on active projects, which the bulk of the projects requires additional funds to complete them in this financial year. The projects implemented through this grant fund for 2010/11 financial year, are projected to be completed by April 2011.

Commitments register for 10/11:

72% Water & Sanitation	R 89 711 855.00
23% Roads	R 76 000 000.00
5% Solid Waste	R 4 510 000.00
15% (Public Municipal Service Infrastructure & Social Institution)	R 19 792 000.00
Total	R 190 013 855.00

This committed fund excludes the MIG operational costs

(e) Public Transport Infrastructure Grant

In terms of resolution no BCC 90/08 which was adopted on 29 April 2008, the implementation of the First Phase BRT system in BCM is supported by Council. The first phase focuses on the Mdantsane – East London Corridor with the appropriate feeder services. A Detailed Operational Plan has been prepared and was approved by Council on 6 May 2010. This Operational Plan forms the primary planning document on which more detailed designs will be based. Further work is required to be carried out by service providers such as business plan development, architectural designs, environmental impact assessments and applications, the development and implementation of a marketing and communication strategy and town planning etc prior to the implementation of physical infrastructure. An award was made on 30 June 2010 to a consortium to undertake these aspects of the project but as yet no service level agreement has been entered into as the award process and draft service level agreement is currently undergoing compliance checks. This represents a critical path on the project programme and the project cannot progress to implementation until this aspect of the project is complete.

Further the approved PTIS allocation of R71,478,000 for the 2010/2011 financial year has not yet been transferred to BCM by the National Treasury. The 2010/2011 allocation once received will be utilised partly for the completion of the design stage but primarily for the implementation of physical infrastructure. However as described above the implementation of infrastructure cannot commence before the completion of the design stage. Detailed designs for the engineering infrastructure, other than architecture, are underway and are being administered by the Engineering Services Directorate.

(f) Municipal Systems Improvement Grant

Outstanding invoices still need to be processed where after the remaining funds will be utilized during the 2010/2011 financial year.

6. RESTRUCTURING GRANT MILESTONES

Table 11: Financial Performance Indicators

Reporting Period:		Month ended 30 September 2010			
Indicator		Target	Actual	Variance	Comment
1.	Total Debt to Annual Income:	35%	24.4%	10.6%	The long term a liability of the city amounts 24.4% of the annual revenue generated and is within the target.
2.	Capital Charges to Op. Exp:	16%	18%	-2%	Capital Charges are 18% of the total operating expenditure.
3.	Annual Collection Rate (Debtors):	97%	83.07%	-13.93%	The annual collection rate is below the desired target of 97%.
4.	Net Debtors to Annual income:	18%	16.8%	1.2%	A net debtor to annual income 16.8% and is within the target.
5.	Personnel Costs to Total Income:	30%	24.7%	5.3%	The city has been maintaining its personal costs within the target set by National Treasury.
6.	Creditors Days:	30	29	1	The city maintains its policy to pay its top 20 creditors within 30 days.

7. RECOMMENDATION

It is recommended that:

1. Council notes the report on the statement of financial performance and the implementation of the 2010/11 budget for the quarter ending 30 September 2010.
2. Council considers the financial state of affairs of the Municipality as reflected in this report and take note of the following:
 - The low collection rate of 83.07% as compared to the National Treasury set target of 97%.
 - Council supports the Revenue Enhancement Strategy and the strict enforcement of the Credit Control Policy.
3. Council notes the following:
 - The spending rate on the conditional grants (DoRA allocations) as reflected in Table 10.
 - Low expenditure rate on conditional grants may result into future years' allocation being decreased.
4. Council notes that unspent conditional grants that are not committed as at 30 June 2011 must be reported to National Treasury by 16 August 2011 and where roll over of funds has not been approved by National Treasury such funds must be returned to the National Revenue Fund by 15 October 2011.
5. Council notes the spending rate on operating and capital budget as reflected in Tables 6 to 6.1 (Operating Expenditure) and Tables 7 to 9.1 (Capital Expenditure).
6. Council notes that NEW projects for the 2010/11 financial year funded from own funds (current allocation) are blocked until such time they become cash backed.

Councilor Z. Faku
EXECUTIVE MAYOR

DATE:

ANNEXURES:

Annexure A

C1	Consolidated Monthly Budget Statement Summary
C2	Consolidated Monthly Budget Statement Financial Performance (Std Classification)
C3	Consolidated Monthly Budget Statement Financial Performance (By Municipal Vote)
C5	Consolidated Monthly Budget Statement Capital Expenditure (Municipal Vote, Std Classification and Funding)
C6	Consolidated Monthly Budget Statement Financial Position
C7	Consolidated Monthly Budget Statement Cash Flow

Annexure B

SC1	Material Variance Explanation
SC2	Performance Indicators
SC3	Aged Debtors
SC4	Aged Creditors
SC5	Investment Portfolio
SC6	Transfers and Grants Receipts
SC7	Transfers and Grants Expenditure
SC8	Councillor and Staff Benefit
SC9	Actuals and Revised Targets for Cash Receipts
SC12	Capital Expenditure trend
SC13a	Capital Expenditure on New Assets by Class
SC13b	Capital Expenditure on Renewal of Existing Assets by Class
SC13c	Expenditure on Repairs and Maintenance by Asset Class

Annexure C

Service Delivery and Budget Implementation Plan

Annexure D

Schedule of Operating Projects

Annexure E

Schedule of Capital Projects

Annexure F

Schedule of Borrowings