

**REPORT TO THE EXECUTIVE MAYOR: 26 APRIL 2011**  
**OFFICE OF THE ACTING MUNICIPAL MANAGER**

**STATEMENT OF FINANCIAL PERFORMANCE AND THE IMPLEMENTATION OF THE**  
**2010/11 BUDGET FOR THE THREE QUARTERS ENDING 31 MARCH 2011**

**File No. 5/1/1/1[10/11]**  
**Author: Mr. Vincent Pillay**  
Acting Chief Financial Officer

**1. PURPOSE**

The purpose of the report is for Council to note the budget and performance assessment for the 2010/11 financial year and service delivery actual performance against the set targets as well the state of affairs in terms of its revenue and expenditure for the three quarters ending 31 March 2011.

**2. AUTHORITY**

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. A summary report was submitted to the Executive Mayor on the 10<sup>th</sup> working day of April 2011.

**3. LEGAL / STATUTORY REQUIREMENTS**

Municipal Finance Management Act No 56, 2003 Chapter 7, Section 52 (d).

**4. EXPOSITION OF FACTS**

*The current report approaches the Review in the following order:*

- 4.1 *Executive Summary on the Implementation of the Budget and the Financial Affairs of the Municipality***
- 4.2 *Statement of Financial Performance***
- 4.3 *Capital Expenditure***
- 4.4 *Expenditure on Conditional Grants - DoRA Allocation***
- 4.5 *Restructuring Grant Milestones***
- 4.6 *Recommendation***

## **4.1 EXECUTIVE SUMMARY ON THE IMPLEMENTATION OF THE BUDGET AND THE FINANCIAL AFFAIRS OF THE MUNICIPALITY**

### **4.1.1 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 are 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.

### **4.1.2 Summary of the Financial Performance and Position of the Municipality**

#### **Liquidity position**

BCM's liquidity is considered sound as the Current Ratio is 1.91:1 which indicates the ability of Municipality's current assets to cover its Current liabilities. This ratio has improved when compared to 1.47:1 in 30 June 2010. However it should be noted that one of the contributing components to the increase in the current ratio are debtors and inventory. Debtors constitute 33% of the current assets, taking into account the fact that the Municipality is facing challenges in collecting arrear debtors so this amount will not be fully convertible into cash. Inventory constitutes 7% of the current assets and BCM is not a trading institution and therefore the inventory amount is not going to be convertible in cash but will be used in service delivery. BCM should therefore manage its stock levels in order to avoid having its cash reserves tied up in inventory. Cash and cash equivalents comprise 59% of the current assets, it should however be noted that a large portion of the investments (R538.52 million) is unutilized conditional grants.

#### **Debtors Collection Rate and Outstanding Debtors**

The average debtors' collection rate for the nine months ending 31 March 2011 is 91.1%.

Total debtors outstanding as at 31 March 2011 amounts to R737.03 million (Households: R520.2 million, Business: R127.6 million, Government: R13.1 million, Other: R76.04 million). The debtors' book has increased by 44% when compared to 30 June 2010.

The ratio of outstanding debtors' to revenue is 18%. This has increased when compared to 14.7% on 30 June 2010.

Buffalo City Municipality is still experiencing the effects 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. 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 and unattended water leaks. The matter is being addressed by the Engineering Directorate to ensure that controls are in place to enhance the collection rate and to reduce the increase in the debtor's book.

Council approved a Debt Repayment Incentive scheme which was implemented from 1 November 2010 for a period of six (6) months. All relevant debtors have been informed in writing of this

scheme as well as advertising. However the response has not been as was originally anticipated. For the period 1 November 2010 to 31 March 2011, a total of 1,099 debtors have applied for the scheme. A total of R7 million was paid towards the debt and a total of R2,7 million was written off. The cost to date of implementing the scheme is as follows:

Design and postage of letters to consumers:	R107,070
Advertising:	R249,730
Enhancement of Financial System:	R203,978
<b>Total:</b>	<b>R560,778</b>

The Directorate of Finance will be undertaking a project of Debt Book Analysis as well as the Data Clean Up Project to determine the debt that is recoverable and irrecoverable. These are two (2) year projects and will be completed in the 2012/2013 financial year.

### 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 31 March 2011 amounts to R605.91 million (Refer to Annexure F). The ratio of debt to total assets is 4.7% as at 31 March 2011. The debt to revenue ratio is 28% and has slightly increased when compared to 30 June 2010 which was 27.3%.

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 be still within the ceiling of 35% as per National Treasury Guidelines. However the Municipality's current cashflow position does not allow the acquisition of further loans as Municipality would not be able to service further loans.

This therefore indicates that the municipality will rely totally on Grant Funding to fund future capital infrastructure projects until such time it has sufficient own reserves.

### 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 June 2011.

**Table 1 : 2010/11 Cash Flow Forecast using 91% Collection Rate**

	2010/2011 R
Opening Balance 1 April 2011	434,111,189
Add : REVENUE	501,651,703
Less : EXPENDITURE	(944,493,228)
Closing Balance at 30 June 2011 (Unfavorable)	(8,730,335)

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

#### **4.1.3.1 Division of Revenue Act (DoRA) Conditional Grants**

As at 31 March 2011 the total expenditure on DoRA current allocations amounts to R95.95 million which is 33% of the allocated funding of R292.48 million (refer to table 10 in section 4.4 of this report). The expenditure percentage on roll over conditional grant from 200/10 is 17% (12.7 million) of the rolled over funding of R79.69 million (refer to table 11 in section 4.4 of this report). 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, 54 and 55 will apply.

In terms of MFMA Circular 51, 54 and 55 any conditional grant funding that is unspent at the end of the municipal financial year must revert back to the National Reserve Fund unless the relevant receiving officer can prove to the satisfaction of National Treasury that the unspent allocation 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. If the municipality fails to repay such unspent grants the National Treasury will offset such amount against the municipality's equitable share allocation of future conditional grants 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.

#### **4.1.3.2 Operating Projects**

Operating projects expenditure for the period ending 31 March 2011 is 52% (R111.81 million) of the 2010/11 mid-year adjustment budget of R215.10 million.

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 conditions of the Division of Revenue Act including MFMA Circular 51, 54 and 55 will apply.

### 4.1.3.3 Capital Projects

The total expenditure on capital projects as at 31 March 2011 amounts to 26% (R198.38 million) of the mid-year adjustment budget of R750.58 million for the 2010/11 financial year. About 57% of the capital budget is funded from grants (conditional grants 39% and unconditional grants 18%). The provision of the Division of Revenue Act including MFMA Circular 51, 54 and 55 will therefore apply if we do not fully spend the conditional grant funding in the current financial year.

**Table 2: Performance Summary**

<b><u>Overall Operating results</u></b>		<b><u>Cash Management</u></b>	
Income	R 2,288,816,312	Cash on hand	R 39,762,626
Expenditure	R 2,301,981,945	Total value of investments	R 912,539,478
Transfer to & from Reserves	R 227,868,206	Total investments - own funds	R 374,021,318
Operating Surplus	R 214,702,573	Total conditional grants	R 538,518,160
		Total Loans	R 671,476,593
<b><u>Debtors</u></b>		<b><u>Surplus/(Deficit) per Service</u></b>	
Total debtors book (including current)	R 536,787,666	Electricity	R47,860,286
Total debtors - Government	R 9,575,930	Water	(R38,160,657)
Total debtors - Business	R 92,959,531	Refuse	R23,446,860
Total debtors - Households	R 378,867,529	Sewerage	R8,082,370
Total debtors - Other	R 55,384,676		
Total debt written off	R 25,070,239		
Year to date collection	R 1,201,297,799		
<b><u>Capital Expenditure</u></b>		<b><u>Operating Projects Expenditure</u></b>	
Capital Expenditure as a % of total approved adjusted budget (2009/10: 27%)	26%	Operating Expenditure as a % of total approved adjusted budget (2009/10: 35%)	52%
<b><u>Financial</u></b>		<b><u>Human Resources</u></b>	
Operating surplus for the period	R 214,702,573	Staff appointments	306
Debtors collection ratio %	91.1%	Staff terminations	168
YTD all grants and subsidies	R 545,007,596	Total staff complement	4,574
Net Debtors to Annual Income	18.0%	Total overtime paid for the month	R 3,268,565
%age of Creditors paid within terms	100%	Number of funded vacant posts	454
Current ratio	1.91 : 1	Salary bill - Councilors	R 17,334,894
Long Term Borrowings to Total Assets	4.7%	Salary bill - Officials	R 623,201,199
Long Term Borrowings to Revenue	28.0%	Workforce costs as a % of income	27.2%

## 4.2 STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDING 31 MARCH 2011

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 3: Statement of Financial Performance for the Period Ending 31 March 2011**

EC125 Buffalo City - Table C4 Consolidated Monthly Budget Statement - Financial Performance (revenue and expenditure) - M09 March										
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										
<b>Revenue By Source</b>										
Property rates		443,351	487,055	487,055	18,594	374,220	384,170	(9,950)	-3%	487,055
Property rates - penalties & collection charges								-		
Service charges - electricity revenue		802,485	988,462	943,902	65,651	705,234	697,690	7,544	1%	943,902
Service charges - water revenue		201,622	225,169	212,622	28,628	165,094	161,591	3,503	2%	212,622
Service charges - sanitation revenue		145,648	162,723	162,723	11,625	129,329	127,695	1,634	1%	162,723
Service charges - refuse revenue		139,256	153,005	153,005	13,927	117,719	114,754	2,965	3%	153,005
Service charges - other								-		
Rental of facilities and equipment		12,910	11,620	11,620	711	6,237	8,715	(2,478)	-28%	11,620
Interest earned - external investments		42,105	32,314	22,862	2,430	20,573	17,147	3,427	20%	22,862
Interest earned - outstanding debtors		44,818	40,965	20,069	1,652	15,717	15,052	665	4%	20,069
Dividends received		86	60	60			45	(45)	-100%	60
Fines		8,257	9,706	9,706	594	5,776	7,279	(1,503)	-21%	9,706
Licences and permits		14,117	14,017	14,017	1,671	11,466	10,513	953	9%	14,017
Agency services								-		
Transfers recognised - operational		110,931	234,513	215,104	12,095	111,812	161,328	(49,516)	-31%	215,104
Other revenue		804,994	713,096	721,012	54,900	625,638	679,232	(53,595)	-8%	721,012
Gains on disposal of PPE								-		
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>2,770,579</b>	<b>3,072,706</b>	<b>2,973,758</b>	<b>212,479</b>	<b>2,288,816</b>	<b>2,385,212</b>	<b>(96,396)</b>	<b>-4%</b>	<b>2,973,758</b>
<b>Expenditure By Type</b>										
Employee related costs		766,288	906,833	825,347	72,320	623,201	619,010	4,191	1%	825,347
Remuneration of councillors		19,691	25,238	25,238	1,914	17,335	18,928	(1,593)	-8%	25,238
Debt impairment		24,317	77,681	69,681	473	52,261	52,261	-		69,681
Depreciation & asset impairment		574,159	476,021	476,021	48,076	357,016	357,016	-		476,021
Finance charges		62,003	100,889	100,889		75,667	75,667	-		100,889
Bulk purchases		593,724	714,565	762,540	54,586	571,607	593,950	(22,343)	-4%	762,540
Other materials								-		
Contracted services		8,345	7,861	6,661	471	3,952	4,996	(1,044)	-21%	6,661
Transfers and grants		2,653	5,667	5,623	34	50	4,217	(4,167)	-99%	5,623
Other expenditure		811,104	1,061,771	1,003,313	61,231	600,893	752,485	(151,592)	-20%	1,003,313
Loss on disposal of PPE								-		
<b>Total Expenditure</b>		<b>2,862,284</b>	<b>3,376,427</b>	<b>3,275,313</b>	<b>239,105</b>	<b>2,301,982</b>	<b>2,478,530</b>	<b>(176,548)</b>	<b>-7%</b>	<b>3,275,313</b>
<b>Surplus/(Deficit)</b>		<b>(91,705)</b>	<b>(303,721)</b>	<b>(301,554)</b>	<b>(26,626)</b>	<b>(13,166)</b>	<b>(93,318)</b>	<b>(272,944)</b>	<b>0</b>	<b>(301,554)</b>
Transfers recognised - capital		608	303,824	303,824	25,319	227,868	227,868			303,824
Contributions recognised - capital										
Contributed assets										
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		<b>(91,097)</b>	<b>103</b>	<b>2,270</b>	<b>(1,307)</b>	<b>214,703</b>	<b>134,550</b>			<b>2,270</b>
Taxation								-		
<b>Surplus/(Deficit) after taxation</b>		<b>(91,097)</b>	<b>103</b>	<b>2,270</b>	<b>(1,307)</b>	<b>214,703</b>	<b>134,550</b>			<b>2,270</b>
Attributable to minorities										
<b>Surplus/(Deficit) attributable to municipality</b>		<b>(91,097)</b>	<b>103</b>	<b>2,270</b>	<b>(1,307)</b>	<b>214,703</b>	<b>134,550</b>			<b>2,270</b>
Share of surplus/ (deficit) of associate										
<b>Surplus/ (Deficit) for the year</b>		<b>(91,097)</b>	<b>103</b>	<b>2,270</b>	<b>(1,307)</b>	<b>214,703</b>	<b>134,550</b>			<b>2,270</b>

**Notes to the Statement of Financial Performance for the Period Ending 31 March 2011**

**1. Service Charges – Property Rates**

The property rates income reflects unfavourable variance of 3%. This is due to adjustments that have been done for category and valuation as part of sv04. Category changes include Municipal properties that were erroneously included as rated.

**2. Transfers Recognised – Operational**

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

**3. Other Revenue**

Other revenue which is made up of numerous miscellaneous items reflects a cash inflow of R625.64 million as against an estimated budget of R679.23 million. Included in the other revenue received to date is an amount of R545 million in respect of Grants and Subsidies.

**4. Debt Impairment**

This is in respect of provision for bad debts.

**5. Employee Related Costs**

The employee related costs were slightly over spent by 0.68%.

**Table 4: Analysis of Overtime**

Overtime	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011
	Annual	YTD	YTD	Variance	Variance
	Budget	Budget	Expenditure		
	R	R	R	R	%
Directorate of Executive Support Services	1,051,001	788,251	859,603	-71,352	-9.05
Directorate of The Municipal Manager	99,381	74,536	68,048	6,487	8.70
Directorate of Chief Operations Officer	22,722	17,042	22,555	-5,514	-32.35
Directorate of Financial Service	892,446	669,335	237,282	432,052	64.55
Directorate of Corporate Services	399,276	299,457	286,063	13,394	4.47
Directorate of Engineering Services	6,721,834	5,041,376	9,865,386	-4,824,011	-95.69
Directorate of Development Planning	687,334	515,501	432,669	82,832	16.07
Directorate of Community Services	12,481,388	9,361,041	12,060,136	-2,699,095	-28.83
Directorate of Health and Public Safety	5,679,108	4,259,331	5,166,142	-906,811	-21.29
<b>Total</b>	<b>28,034,490</b>	<b>21,025,868</b>	<b>28,997,884</b>	<b>-7,972,017</b>	<b>-37.92</b>

The Directorate of Chief Operations Officer and Engineering Services have already overspent their annual budget. Therefore these directorates should stop incurring overtime.

It is projected that Community Services as well as Health and Public Safety Directorate's budget will be fully spent by April (before financial year end) if the spending rate continues. Therefore these directorates should drastically reduce their spending rate on overtime.

## **COMMENTS FROM DIRECTORATES ON OVER EXPENDITURE ON OVERTIME**

### **DIRECTORATE OF EXECUTIVE SUPPORT SERVICES**

#### **IDP**

Over expenditure on YTD budget has been a result of emergency overtime caused by the extended duration of IDP technical meetings.

### **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 non 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 the demand of rendering services increases.

### **DIRECTORATE OF ENGINEERING SERVICES**

#### **Water Supply Services**

Overtime is due to call outs, standbys shifts for emergencies in Coastal, Inland and Midland areas.

#### **Sanitation Division**

##### **Treatment**

The treatment section operates and maintains 15 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 in 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 2100 km of sewers, 81 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.

### **Nightsoil**

A spillage not attended to contravenes Statutory 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.

### **Electrical Operations**

The majority (98%) of all overtime worked is emergency overtime which is worked in all areas of East London and King Williamstown/Bisho due to standby, vandalism, theft, etc. In addition, there is insufficient staff to carry out maintenance during normal working hours.

### **Roads**

Roads Maintenance Overtime Expenditure is due to emergencies.

## **DIRECTORATE OF COMMUNITY SERVICES**

### **Environmental Services**

Overtime is undertaken as a result of the demands from the residents requesting grass cutting. As a result of the backlog the department is obliged to work overtime. Also there have been so many local, provincial and international events that took place in BCM in the recent past. The department had to present an aesthetically pleasing environment and promote BCM as a tourist destination.

Every effort is made to ensure that the department is within the parameters of the budgeting guidelines. The decline in rainfall will also result in less overtime being taken.

### **Amenities**

The Amenities Sections are of such a nature that they have to open 7 days a week and public holidays and staff have to work in order to deliver service effectively. Also due to the increased number of events hosted in our facilities during the week and over weekends, staff is needed to ensure that all operations run smoothly.

The Amenities Section adheres to the 10 hours per week on overtime worked and shift systems have been introduced in other Sections where it's feasible. Extra overtime has been worked in February due to events hosted like galas in swimming pools and opening of the Water-World Complex.

## **Arts & Cultural Services**

The ACS staff performing overtime (permanent & temporary) is halls staff or other staff within ACS permitted to perform Caretaker duties. As most hall bookings occur after hours/over weekends, this results in excessive overtime. It is essential that the overtime is worked as this is a service to the public.

There are only 13 Caretakers for 33 Halls and Halls are used predominantly after hours. Supervisors perform overtime primarily to transport Caretakers between facilities and Oversee preparation of facilities between multiple bookings over weekends. In the previous financial year Hall hire accounted for R1.1 million of Council's revenue.

Various options have already been considered and the best option is to introduce a shift system. However, this would involve changes to the Conditions of Service of the staff involved. HR & the Department for see difficulty in applying this.

## **Solid Waste Management Services**

The Department of Solid Waste has been adhering to schedules of staff working overtime in order to keep the city clean.

## **DIRECTORATE OF HEALTH & PUBLIC SAFETY**

### **Health Services**

Staff has to visit initiates after hours and on weekends to ensure compliance with the Application of Health Standards in Traditional circumcision Act, 6 of 2001. Nursing staff assist Traffic Department on weekends with their “drunken driving campaigns”.

### **Public Safety**

Fire & Rescue Services operate a 24/7 service and in order to render the service a minimum crew level has to be maintained at each fire station and as such staff are posted on overtime in order to “replace” staff who report in sick. Furthermore the 24/7 service requires that staff work Sundays and Public Holidays and as such are paid overtime on these days albeit that the day worked is a normal shift day, i.e. the overtime is not necessary extra time worked but a normal shift in order to complete the minimum hours required to be worked and to ensure that the Fire and Rescue Service is functional.

In respect of Traffic & Law Enforcement Services, the overtime is brought about by working weekends which is in addition to the 40 hour week, and Public Holidays which fall in the category of a normal shift, but because it is a Public Holiday hours worked are remunerated as overtime.

A further burden placed on both Traffic & Law Enforcement Services is the large number of sporting and other events that take place in Buffalo City with most if not all the events requiring both Traffic & Law Enforcements presence. The events referred to are inter alia, soccer, rugby and cricket matches, cycle races, road races (marathons), music festivals and special events such as Ironman 70.3, Felt Cycle Tour, Christmas Carnivals, switching on of lights and funerals. Disaster Management plays a large role in the monitoring of the safety aspects at the above mentioned events. Most informal settlement fires unfortunately tend to occur outside normal working hours and Disaster Management personnel are required to assist with relief parcels.

The large number of activities and Public Holidays over the December 2010/January 2011 holiday season placed excessive strain of the need to work overtime in Public Safety.

## **6. Other Expenditure**

Other expenditure includes operating projects, general expenses as well as repairs and maintenance. The major contributing factor to the under expenditure of R152 million is general expenses (R70 million), followed by operating projects (R50 million) and repairs & maintenance (R31 million).

**Table 5: Repairs and Maintenance**

<b>Repairs &amp; Maintenance</b>	<b>2010/2011 Annual Budget R</b>	<b>2010/2011 YTD Budget R</b>	<b>2010/2011 YTD Expenditure R</b>	<b>2010/2011 Variance R</b>	<b>2010/2011 % of the YTD Budget</b>
Directorate of Executive Support	2,583,575	1,937,681	1,398,467	539,214	72.17
Directorate of The Municipal Manager	45,185	33,889	9,426	24,463	27.81
Directorate of Chief Operations Officer	21,525	16,144	11,313	4,830	70.08
Directorate of Finance	1,856,208	1,392,156	591,291	800,865	42.47
Directorate of Corporate Services	4,138,765	3,104,074	2,236,223	867,850	72.04
Directorate of Engineering Services	171,854,583	128,890,937	106,983,176	21,907,762	83.00
Electricity	89,098,702	66,824,027	48,725,712	18,098,314	72.92
Water	19,816,872	14,862,654	15,393,293	-530,639	103.57
Sanitation	18,399,229	13,799,422	13,795,351	4,071	99.97
Other	44,539,780	33,404,835	29,068,819	4,336,016	87.02
Directorate of Development Planning	12,714,977	9,536,233	8,135,962	1,400,270	85.32
Directorate of Community Services	20,481,470	15,361,103	11,943,429	3,417,674	77.75
Directorate of Health and Public Safety	5,870,296	4,402,722	2,397,386	2,005,336	54.45
<b>TOTAL</b>	<b>219,566,584</b>	<b>164,674,938</b>	<b>133,706,674</b>	<b>30,968,264</b>	<b>81.19</b>

The table above reflects repairs and maintenance expenditure against budget. Repairs and Maintenance expenditure efficiency ratio for the period ending 31 March 2011 is 81.19% (R133.71 million). This indicates an increase in expenditure pattern when compared to the previous financial year (2009/2010: 72.35%). 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	16,006,444	4,923,280	11,083,164	31%
Directorate of The Municipal Manager	565,000	8,972,891	3,478,203	5,494,688	39%
Directorate of Chief Operations Officer	302,962	2,663,140	434,456	2,228,684	16%
Housing Projects	40,383,450	117,392,400	86,879,920	30,512,480	74%
Directorate of Finance	14,600,000	16,802,886	4,141,927	12,660,959	25%
Directorate of Corporate Services	10,812,000	4,131,430	1,719,390	2,412,040	42%
Directorate of Engineering Services		25,264,886	3,409,135	21,855,751	13%
Directorate of Development Planning	16,201,600	21,691,443	6,816,279	14,875,164	31%
Directorate of Community Services	750,000	1,840,570	2,745	1,837,825	0%
Directorate of Health and Public Safety	170,000	338,217	6,680	331,537	2%
<b>TOTAL</b>	<b>110,605,012</b>	<b>215,104,307</b>	<b>111,812,015</b>	<b>103,292,292</b>	<b>52%</b>

The table above reflects operating projects expenditure against budget. Operating projects expenditure for the period ending 31 March 2011 is R111.81 million which is 52% of the adjustment budget of R215.10 million. The expenditure pattern has increased when compared to the previous financial year (2009/10: 35%). Comments on the under expenditure are disclosed in Annexure D.

#### **4.3 CAPITAL EXPENDITURE**

The total expenditure on capital projects as at 31 March 2011 amounts to 26% (R198.38 million) of the adjusted budget of R750.58 million for the 2010/11 financial year. The capital expenditure indicates a slight decrease in expenditure pattern when compared to the previous financial year (2009/2010) which was 27%. Comments on the under expenditure are disclosed in Annexure E. Refer to Annexure A: C5, Annexure B: SC12, SC13a and SC13b.

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

**Table 7: Capital Expenditure per Funding Source against Budget**

<b>Funding</b>	<b>2010/2011 Approved Capital Budget</b>	<b>2010/2011 Mid Year Adjustment Budget</b>	<b>Expenditure YTD 2010/2011</b>	<b>Variance 2010/2011</b>	<b>% Expenditure vs Mid Year Adjustment Budget</b>
Own Funds	15,000,000	15,000,000	0	15,000,000	0%
Capital Replacement Reserve	156,842,024	162,397,604	23,344,868	139,052,736	14%
Capital Replacement Reserve c/o	0	70,451,674	23,373,400	47,078,275	33%
Development Bank of South Africa loan c/o Phase 4	0	32,953,221	18,598,057	14,355,164	56%
Development Bank of South Africa loan c/o Phase 5	0	39,376,415	14,245,402	25,131,013	36%
<b>Total Own Funding</b>	<b>171,842,024</b>	<b>320,178,915</b>	<b>79,561,727</b>	<b>240,617,187</b>	<b>25%</b>
Buffalo City Metropolitan Transport c/o	0	713,832	3,203	710,630	0%
Dept of Econ Dev, Environ Affairs and Tourism c/o	0	5,239	0	5,239	0%
Department of Land Affairs c/o	0	2,015,676	309,225	1,706,451	15%
Dept Of Local Government and Traditional Affairs c/o	0	144,204	129,375	14,829	90%
Dept of Sports Arts & Culture c/o	0	22,204,431	7,110,085	15,094,345	32%
Department of Science and Technology c/o	0	390,580	0	390,580	0%
Department of Water Affairs c/o	0	24,227	0	24,227	0%
Eastern Cape Development Corporation	0	415,150	0	415,150	0%
Electricity Demand Side Management	4,000,000	4,000,000	3,054,143	945,857	76%
Equitable Share c/o	0	3,317,159	1,102,953	2,214,206	33%
European Commission	0	7,544,000	0	7,544,000	0%
European Commission c/o	0	227,469	38,817	188,652	17%
Integrated National Electrification Programme	20,000,000	20,000,000	4,427,144	15,572,856	22%
Leiden Platform	2,588,000	2,588,000	573,286	2,014,714	22%
Leiden Platform c/o	0	608,065	26,500	581,565	4%
Department of Local Government and Housing	9,800,000	2,100,000	0	2,100,000	0%
Department of Local Government and Housing c/o	0	20,984,231	4,466,151	16,518,080	21%
Municipal Infrastructure Grant	190,004,332	192,895,301	85,028,184	107,867,117	44%
Municipal Infrastructure Grant c/o	0	40,974,878	11,217,678	29,757,200	27%
Neighbourhood Development Partnership Grant c/o	0	216,181	0	216,181	0%
Office of the Premier	0	500,000	0	500,000	0%
Disaster Management Fund c/o	0	337,402	0	337,402	0%
Provincial Treasury Office - LED Support Programme	0	708,435	235,000	473,435	33%
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%
Public Transport Infrastructure Grant c/o	0	35,004,517	1,093,931	33,910,586	3%
<b>Total Grant Funding</b>	<b>309,370,332</b>	<b>430,396,978</b>	<b>118,815,677</b>	<b>311,581,301</b>	<b>28%</b>
<b>TOTAL PER FUNDING</b>	<b>481,212,356</b>	<b>750,575,892</b>	<b>198,377,404</b>	<b>552,198,489</b>	<b>26%</b>

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

**Table 8: Actual Expenditure per Directorate against Budget**

<b>Directorate</b>	<b><u>2010/2011 Approved Capital Budget</u></b>	<b><u>2010/2011 Mid Year Adjustment Budget</u></b>	<b><u>Expenditure YTD 2010/2011</u></b>	<b><u>Variance 2010/2011</u></b>	<b><u>% Expenditure vs Mid Year Adjustment Budget</u></b>
Executive Support Services	9,203,000	40,555,647	14,866,932	25,688,715	37%
Municipal Manager's Office	200,000	200,000	7,495	192,505	4%
Chief Operations Officer	10,430,000	23,730,111	4,538,031	19,192,080	19%
Directorate of Financial Services	6,563,000	15,745,486	1,776,319	13,645,952	12%
Directorate of Corporate Services	6,053,652	9,268,173	1,848,139	7,428,900	20%
Directorate of Engineering Services	274,311,855	381,388,348	139,709,562	240,585,857	37%
Directorate of Development Planning	121,152,360	167,289,004	17,700,655	149,588,349	11%
Directorate of Community Services	38,618,540	70,850,210	11,798,324	60,456,324	16%
Directorate of Health & Public Safety	14,679,949	41,548,913	6,131,947	35,419,806	15%
<b>TOTAL PER DIRECTORATE</b>	<b>481,212,356</b>	<b>750,575,892</b>	<b>198,377,404</b>	<b>552,198,489</b>	<b>26%</b>

\* Note: That the budget for the Directorate of Financial Services includes an amount of R 6,565,522 for Insurance Asset Replacement for the entire Buffalo City Municipality. The expenditure percentage with out Insurance Asset Replacement is 20.06%.

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

**Table 9: Actual Expenditure per Service against Budget**

<b>Services</b>	<b><u>2010/2011 Approved Capital Budget</u></b>	<b><u>2010/2011 Mid Year Adjustment Budget</u></b>	<b><u>Expenditure YTD 2010/2011</u></b>	<b><u>Variance 2010/2011</u></b>	<b><u>% Expenditure vs Mid Year Adjustment Budget</u></b>
Water	41,500,000	83,067,758	39,063,594	47,107,551	45%
Waste Water	70,711,855	100,137,670	34,842,701	67,487,720	34%
Electricity	45,800,000	59,311,836	16,083,488	50,923,778	24%
Roads and Stormwater	95,500,000	96,848,874	37,553,953	60,210,423	38%
Housing	9,800,000	23,414,231	4,466,151	18,948,080	19%
Transport Planning	109,052,360	141,837,786	13,784,774	128,053,012	10%
Cleansing	17,500,000	22,571,456	3,935	23,867,521	0%
Amenities	18,100,000	39,333,459	8,629,459	30,698,493	22%
Environmental Services	2,500,000	7,224,298	2,927,085	4,292,188	41%
Health Services	3,392,477	3,633,416	508,010	3,123,736	14%
Public Safety	10,750,000	37,378,025	5,623,937	31,758,598	15%
Support Services	44,075,664	88,475,318	18,709,375	54,536,596	26%
Other	12,530,000	47,341,766	16,180,942	31,190,794	34%
<b>TOTAL PER SERVICE</b>	<b>481,212,356</b>	<b>750,575,892</b>	<b>198,377,404</b>	<b>552,198,489</b>	<b>26%</b>

#### 4.4 EXPENDITURE ON CONDITIONAL GRANTS - DORA ALLOCATION

##### DoRA Current Allocation

The 2010/11 financial year adjusted budget includes a DoRA current allocation of R292.48. The total expenditure on DoRA current allocation as at 31 March 2011 amounts to R95.95 million which is 33% of R292.48 million.

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

**Table 10: Actual Expenditure per Funding against Budget**

<b>Funding/Grant</b>	<b>2010/2011 Mid-Year Adjustment Budget</b>	<b>2010/2011 YTD Expenditure R</b>	<b>2010/2011 Variance R</b>	<b>% Expenditure vs Budget 2010/2011</b>
Department of Water Affairs	2,152,000	1,962,023	189,977	91%
Electricity Demand Site Management	4,000,000	3,054,143	945,857	76%
Finance Management Grant	1,200,000	913,497	286,503	76%
Integrated National Electrification Programme	20,000,000	4,427,144	15,572,856	22%
Municipal Infrastructure Grant	192,895,301	85,028,184	107,867,117	44%
Public Transport Infrastructure Grant	71,478,000	0	71,478,000	0%
Municipal Systems Improvement Grant	750,000	566,426	183,574	76%
<b>TOTAL</b>	<b>292,475,301</b>	<b>95,951,417</b>	<b>196,523,884</b>	<b>33%</b>

##### DoRA Carry Overs

The 2010/11 financial year Mid-Year Adjustment budget includes conditional grants DoRA carry overs of R76.69 million. The total expenditure on conditional grants DoRA carry overs as at 31 March 2011 amounts to R12.7 million which is 17% of R76.69 million.

Table 11 below reflects the year to date expenditure on 2010/11 conditional grants DoRA carry overs.

**Table 11: Actual Expenditure per Funding against Budget**

<b>Funding/ Grant</b>	<b>2010/2011 Mid Year Adjustment Budget</b>	<b>Expenditure YTD 2010/2011</b>	<b>Variance 2010/2011</b>	<b>% Expenditure vs Mid Year Adjustment Budget</b>
Department of Water Affairs c/o	275,000	275,000	0	100%
Municipal Infrastructure Grant c/o	40,974,878	11,217,678	29,757,200	27%
Neighbourhood Development Partnership Grant c/o	216,181	0	216,181	0%
Public Transport Infrastructure Grant c/o	35,004,517	1,093,931	33,910,586	3%
Municipal Systems Infrastructure Grant c/o	219,594	111,905	107,689	51%
<b>TOTAL</b>	<b>76,690,170</b>	<b>12,698,514</b>	<b>63,991,656</b>	<b>17%</b>

## Comments on DoRA 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 well under way with the primary site being cleared and terracing of the platform is taking place. All major equipment has been ordered.

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

The contracts for the Reeston and Potsdam Areas have been awarded and work has commenced at Reeston 1000 connections and Potsdam / Mdantsane 260 connections this will increase the expenditure with invoices being received from end January 2011.

Due to delays in appointing a contractor for the electrification of Kwa Cliff, it will not be possible to complete this project this year. After consultation with the DoE, the department has request that the funding be transferred to the existing Queens Park Zoo Substation Project.

### (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 R4 million which constitutes an estimated 2500 new installations. These funds will be expended over the 2010/11 financial year.

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 second batch of a 1000 fittings has been installed A monthly cost is also incurred for 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 June 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
<b>Total</b>	<b>R 190 013 855.00</b>

This committed fund excludes the MIG operational costs

**(e) Public Transport Infrastructure Grant**

A detailed Operational Plan 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 project management, communications and marketing, business planning, operational planning, architecture, structural, electrical, mechanical and electronic engineering, quantity surveying, town planning, environmental and legal services prior to the implementation of physical infrastructure. The tender for the appointment of the full team of service providers has been prepared, including all the above-mentioned functions and will be submitted to the Bid Specifications Committee once input from the relevant departments has been received.

**(f) Municipal Systems Improvement Grant**

The projects are on track and the funding will be fully utilized at year end.

**4.5 RESTRUCTURING GRANT MILESTONES**

**Table 12: Financial Performance Indicators**

Reporting Period:		Month ended 31 March 2011			
Indicator		Target	Actual	Variance	Comment
1.	Total Debt to Annual Income:	35%	28%	7%	The long term a liability of the city is 24.4% of the annual revenue generated and is within the target.
2.	Capital Charges to Op. Exp:	16%	19%	-3%	Capital Charges are 19% of the total operating expenditure. The high capital charges are resulting from high depreciation that is caused by increase in assets book value due to assets revaluation.
3.	Annual Collection Rate (Debtors):	97%	91.1%	-5.9%	The annual collection rate is below the desired target of 97%.
4.	Net Debtors to Annual income:	18%	18%		A net debtor to annual income 18% and is within the target.
5.	Personnel Costs to Total Income:	30%	27.2%	2.8%	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.

#### **4.6 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 period ending 31 March 2011.
2. Council considers the financial state of affairs of the Municipality as reflected in this report and takes note of the low collection rate of 91.1% as compared to the National Treasury set target of 97%.
3. Council notes that the current collection rate is decreasing the Municipality's cash reserves to the level where the Municipality cannot afford to fund capital infrastructure in the 2011/12 MTREF period.
4. Council notes the low spending rate on the conditional grants (current allocations 33%; carry overs 17%) as reflected in table 10 and 11 of this report.
5. Council notes the low spending rate of 26% on capital budget as reflected on tables 7 to 9 of this report.
6. Council notes the low spending rate of 52% on operating projects as reflected on table 6 of this report.

**Mr. A. Fani**  
**ACTING MUNICIPAL MANAGER**

**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)
C4	Consolidated Monthly Budget Statement Financial Performance (Revenue and Expenditure)
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