

REPORT TO COUNCIL: 25 JANUARY 2011
OFFICE OF THE EXECUTIVE MAYOR

MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR 2010/11 FINANCIAL YEAR

File No. 5/1/1/1[10/11]
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1. PURPOSE

The purpose of the report is for Council to note the mid-year 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.

2. AUTHORITY

In the terms of the statutory requirement this report is mandated by Council.

3. STATUTORY REQUIREMENTS

In terms of Section 72, of the Municipal Finance Management Act No. 56, 2003, Chapter 8, the accounting officer of the municipality must by 25 January of each year submit a mid-year performance assessment report of the municipality to the mayor of the municipality.

In terms of the Section 54 (1), (2) and (3) of the Municipal Finance Management Act No. 56, 2003 Chapter 7, the following applies: -

“(1) on receipt of a statement or report submitted by the accounting officer of the Municipality

In terms of section 72, the mayor must –

- (a) consider the statement or report;*
- (b) check whether the municipality’s approved budget is implemented in accordance with the service delivery and budget implementation plan;*
- (d) issue any appropriate instructions to the accounting officer to ensure –*
 - (i) that the budget is implemented in accordance with the service delivery and budget implementation plan; and*
 - (ii) that spending of funds and revenue collection proceed in accordance with the budget;*
- (f) submit the report to the Council by 31 January of each year.”*

4. EXPOSITION OF FACTS

The current report approaches the Review in the following order:

4.1 *Executive Summary of Performance and Budget Implementation*

4.2 *Statement of Financial Performance*

4.3 *Capital Expenditure*

4.4 *Expenditure on Conditional Grants - DoRA Allocation*

4.5 *Restructuring Grant Milestones*

4.1 EXECUTIVE SUMMARY OF PERFORMANCE AND BUDGET IMPLEMENTATION

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 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 half-year 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

The overall mid-year operating results for the 2010/11 financial year indicate a surplus of R206 million on accrual basis.

Liquidity position

BCM's liquidity is considered sound as the Current Ratio is 1.98 which indicates the ability of Municipality's current assets to cover its liabilities. The norm for the current ratio is 2:1. This ratio has increased when compared to 1.47 in the 2010/10 financial year.

Debtors Collection Rate and Outstanding Debtors

The average debtor's collection rate for the six months ending 31 December 2010 is 90.82%. The 12 month collection ratio ending 31 December 2010 as calculated using the National Treasury method is 93.78%. The current collection rate has a tremendous impact on the municipality's cash flow situation and its ability to fund new capital infrastructure developments as well as the maintenance and enhancement of existing infrastructure as it can only fund the current operations but can not generate any reserves or surpluses to fund future projects.

Total gross debtors as at 31 December 2010 amounts to R537.4 million (Households: R386.6 million, Business R90.6 million, Government: R10.1 million and Other: R50.1 million) of which 67% comprises outstanding debt older than 120 days. The gross debtors' book has increased by 32% when compared to 30 June 2010 which was R407.1 million.

The ratio of outstanding debtors' to revenue is 17.5%. This has increased when compared to 14.7% on 30 June 2010. This indicates that our debtors are increasing on monthly basis.

Buffalo City Municipality is still 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. 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 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 and marketing is also in process. However the response has not been as was originally anticipated. This is also an indication that debtors themselves are experiencing financial difficulties. In order to assist collections the Directorate of Finance has undertaken a project of debt book analysis as well as the data cleanup project to determine the debt that is recoverable and irrecoverable.

Both the debt book analysis and the data cleanup projects are two (2) year projects and will be completed in the 2011/2012 financial year.

Provision for bad debts year to date has increased by 11% from R34.86 million in 2009/10 to R38.84 million in 2010/11.

Long-Term Debt Profile

The total long term borrowing of the municipality as at 31 December 2010 amounts to R598.5 million (Refer to Annexure F). This is utilized to predominantly fund the capital infrastructure development programme mainly for the previously disadvantaged areas. The ratio of debt to total assets is 4.2% as at 31 December 2010. The debt to revenue ratio is 23.9% and is currently maintained at manageable levels in order to ensure that BCM will be able to service its long-term debt. This has slightly decreased when compared to 30 June 2010 which was 27.3%. The decrease in the ratio is due to:

- an increase in 2010/11 annual revenue by 11% when compared to the 2009/10 financial year and
- a low spending rate which resulted in less draw-downs on our DBSA loan facility

In the past 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 future capital infrastructure programme from its own funds in 2011/12 Medium Term Revenue and Expenditure Framework (MTREF) Budget period.

Table 1: Performance Summary

<u>Overall Operating results</u>		<u>Cash Management</u>	
Income	R 1,620,516,773	Cash on hand	R 99,109,188
Expenditure	R 1,566,411,593	Total value of investments	R 634,452,654
Transfer to & from Reserves	R 151,912,138	Total investments - own funds	R 236,223,967
Operating Surplus	R 206,017,317	Total conditional grants	R 398,228,687
		Total Loans	R 598,496,994
<u>Debtors</u>		<u>Surplus per Service</u>	
Total debtors book (including current)	R 537,439,520	Electricity	R14,390,634
Total debtors - Government	R 10,090,610	Water	(R31,189,079)
Total debtors - Business	R 90,617,982	Refuse	R22,969,679
Total debtors - Households	R 386,593,468	Sewerage	R19,069,782
Total debtors - Other	R 50,137,460		
Total debt written off	R 22,797,403		
Year to date collection	R 815,119,247		
<u>Capital Expenditure</u>		<u>Operating Projects Expenditure</u>	
Capital Expenditure as a % of total approved adjusted budget (2009/10: 14%)	18%	Operating Expenditure as a % of total approved adjusted budget (2009/10: 14%)	33%
<u>Financial</u>		<u>Human Resources</u>	
Operating surplus for the period	R 206,017,317	Staff appointments	234
Debtors collection ratio %	90.8%	Staff terminations	85
YTD all grants and subsidies	R 413,088,633	Total staff complement	4,668
Net Debtors to Annual Income	17.5%	Total overtime paid for the month	R 2,783,499
%age of Creditors paid within terms	100%	Number of funded vacant posts	389
Current ratio	1.98	Salary bill - Councilors	R 11,004,203
Long Term Borrowings to Total Assets	4.2%	Salary bill - Officials	R 408,242,057
Long Term Borrowings to Revenue	23.9%	Staff costs as a % of income	25.2%

4.2 STATEMENT OF FINANCIAL PERFORMANCE FOR THE 2010/11 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT

The Statement of Financial Performance is presented on the **accrual basis**.

Table 2: Statement of Financial Performance for the 2010/11 Mid-Year Budget and Performance Assessment

EC125 Buffalo City - Table C4 Consolidated Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December										
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	487,055	47,247	285,805	285,121	684	0%	487,055
Property rates - penalties & collection charges								-		
Service charges - electricity revenue		810,361	988,462	988,462	69,856	471,072	486,827	(15,756)	-3%	988,462
Service charges - water revenue		201,289	225,169	225,169	10,357	109,611	114,671	(5,060)	-4%	225,169
Service charges - sanitation revenue		146,597	162,723	162,723	13,706	93,684	93,014	670	1%	162,723
Service charges - refuse revenue		139,180	153,005	153,005	13,086	77,605	76,503	1,103	1%	153,005
Service charges - other								-		
Rental of facilities and equipment		9,996	11,620	11,620	854	4,141	5,810	(1,669)	-29%	11,620
Interest earned - external investments		39,662	32,314	32,314	2,009	12,770	16,157	(3,387)	-21%	32,314
Interest earned - outstanding debtors		27,505	40,965	40,965	1,822	10,035	20,482	(10,448)	-51%	40,965
Dividends received		86	60	60			30	(30)	-100%	60
Fines		8,257	9,706	9,706	649	4,059	4,853	(793)	-16%	9,706
Licences and permits		14,268	14,017	14,017	1,374	7,358	7,009	350	5%	14,017
Agency services								-		
Transfers recognised - operational		133,492	234,513	238,947	4,998	79,896	119,473	(39,577)	-33%	238,947
Other revenue		561,976	713,096	713,096	144,594	464,480	491,272	(26,792)	-5%	713,096
Gains on disposal of PPE								-		
Total Revenue (excluding capital transfers and contributions)		2,535,669	3,072,706	3,077,140	310,551	1,620,517	1,721,222	(100,706)	-6%	3,077,140
Expenditure By Type										
Employee related costs		753,200	906,833	906,833	61,728	408,242	453,417	(45,175)	-10%	906,833
Remuneration of councillors		19,691	25,238	25,238	1,823	11,004	12,619	(1,615)	-13%	25,238
Debt impairment		94,469	77,681	77,681	6,473	38,841	38,841	-		77,681
Depreciation & asset impairment		342,031	476,021	476,021	39,668	238,011	238,011	-		476,021
Finance charges		69,037	100,889	100,889	8,407	50,444	50,444	-		100,889
Bulk purchases		588,878	714,565	714,565	50,287	405,660	401,902	3,758	1%	714,565
Other materials								-		
Contracted services		8,138	7,861	7,861	411	2,377	3,931	(1,553)	-40%	7,861
Transfers and grants		9	5,567	5,567		16	2,783	(2,767)	-99%	5,567
Other expenditure		757,431	1,061,771	1,066,206	57,880	411,815	533,103	(121,287)	-23%	1,066,206
Loss on disposal of PPE								-		
Total Expenditure		2,632,884	3,376,427	3,380,861	226,677	1,566,412	1,735,050	(168,638)	-10%	3,380,861
Surplus/(Deficit)		(97,215)	(303,721)	(303,721)	83,874	54,105	(13,828)	(269,344)	0	(303,721)
Transfers recognised - capital		148,883	303,824	303,824	25,319	151,912	151,912			303,824
Contributions recognised - capital										
Contributed assets										
Surplus/(Deficit) after capital transfers & contributions		51,667	103	103	109,192	206,017	138,084			103
Taxation								-		
Surplus/(Deficit) after taxation		51,667	103	103	109,192	206,017	138,084			103
Attributable to minorities										
Surplus/(Deficit) attributable to municipality		51,667	103	103	109,192	206,017	138,084			103
Share of surplus/ (deficit) of associate										
Surplus/ (Deficit) for the year		51,667	103	103	109,192	206,017	138,084			103

Notes to the Statement of Financial Performance for the 2010/11 Mid-Year Budget and Performance Assessment

1. Performance of Various Services

1.1 Rates Services

The rates services billing income reflects a year to date income of R285.8 million as against an estimated year to date budget of R285.1 million.

1.2 Electricity Service

The electricity billing income reflects a year to date income of R471.07 million as against an estimated year to date budget of R486.82 million and therefore there is an unfavourable variance of 3%.

The bulk electricity purchases reflect a year to date expenditure of R331.2 million against the year to date budget of R341.9 million.

1.3 Water Service

The water billing income reflects a year to date income of R109.6 million as against an estimated year to date budget of R114.6 million and therefore there is an unfavourable variance of 4%.

The bulk water purchases reflect a year to date expenditure of R74.5 million against the year to date budget of R60 million. There is therefore an over expenditure of 24%. One of the contributing factors to the over expenditure is the high water losses as water losses rate is sitting at 39.4%.

Secondly due to the drought situation raw water had to be paid for and released from wriggleswade dam to bridledrift dam. Due to recent rains and projected rain fall this has been temporarily suspended.

1.4 Sanitation

The sanitation billing income reflects a year to date income of R93.7 million as against an estimated year to date budget of R93 million.

1.5 Refuse Removal

The refuse removal billing income reflects a year to date income of R77.6 million as against an estimated year to date budget of R76.5%.

2. Transfers Recognised – Operational

This relates to operating projects, income is recognised as the expenditure is incurred. The unfavourable variance of 33% is the result of under expenditure on operating projects (Refer to **Annexure D**).

3. Other Revenue

Other revenue which is made up of numerous miscellaneous items reflects a cash inflow of R464.48 million as against an estimated budget of R491.27 million. Included in the other revenue received to date is an amount of R413.09 million in respect of Grants and Subsidies against the year to date budget of R418 million. Various donor funding grants are still outstanding.

4. Debt Impairment

This is in respect of provision for bad debts.

5. Employee Related Costs

The employee related costs were under spent by 10%. This is due to vacant funded posts that are not yet filled by the various Directorates.

Table 3: 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	8
Office of the Municipal Manager	7			7
Directorate of Chief Operations Officer	9	1	2	6
Directorate of Finance	27	6	8	13
Directorate of Corporate Services	20	3	6	11
Directorate of Engineering Services	164	17	46	101
Directorate of Planning & Economic Development	30	5	6	19
Directorate of Health and Public Safety	34	9	16	9
Directorate of Community Services	88	28	26	34
Total Vacant Funded Posts	389	69	112	208

The reasons for the vacant funded posts are as follows:

- Posts are on hold due to dismissal disputes.
- Job Requirement Amendments / Structural amendments.
- Posts in the Municipal Manager's Office and Chief Financial Officer's Office are on hold until the MM and CFO are employed.
- Line Departments not forwarding the Requests to Advertise their posts.

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	525,501	458,837	66,663	12.69
Directorate of The Municipal Manager	99,381	49,691	23,280	26,411	53.15
Directorate of Chief Operations Officer	22,722	11,361	22,400	(11,039)	(97.16)
Directorate of Financial Services	892,446	446,223	189,409	256,814	57.55
Directorate of Corporate Services	399,276	199,638	200,902	(1,264)	(0.63)
Directorate of Engineering Services	6,721,834	3,360,917	6,551,102	(3,190,185)	(94.92)
Directorate of Development Planning	687,334	343,667	245,496	98,171	28.57
Directorate of Community Services	12,481,388	6,240,694	6,401,593	(160,899)	(2.58)
Directorate of Health and Public Safety	5,679,108	2,839,554	2,838,934	620	0.02
Total	28,034,490	14,017,245	16,931,952	(2,914,707)	(20.79)

COMMENTS FROM DIRECTORATES ON OVER EXPENDITURE ON OVERTIME

DIRECTORATE OF CHIEF OPERATING OFFICER

Overtime is spent by the Beneficiary Administration and Relocation teams who have to work odd hours because of no availability of beneficiaries on normal working hours and work demand. The overtime spent by each employee each month is within the acceptable 40 hrs per month.

Attempts by the Department for increased funding failed. The Department is trying on other means of staff reimbursement, that is time offs and Shifts.

DIRECTORATE OF CORPORATE SERVICES

Over expenditure within the Directorate of Corporate Services is a result of the following:

- Directorates not adhering to deadlines on submission of for meetings reports to allow time for agendas to be delivered to Councillors.
- An increase in number of Special Council meetings in this financial year.

As a support Directorate: reports, agendas and minutes need to be delivered to Councillors before each meeting.

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

In the treatment section, 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.

In the conveyance section, overtime has been incurred as follows (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.

In the Night soil section, overtime has been incurred due to 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.

Roads

Overtime is due to emergency repairs.

DIRECTORATE OF COMMUNITY SERVICES

The Directorate of Community Services has successfully managed to put all controls in place regarding overtime, as such employees are now adhering to the 40 hours as stipulated. Due to preparations for the festive season and lots of events hosted in our facilities during the week and over the weekends, staff was needed to ensure that all operations are conducted efficiently.

Table 5: Repairs and Maintenance

Repairs & Maintenance	2010/2011	2010/2011	2010/2011	2010/2011	2010/2011
	Annual	YTD	YTD	Variance	% of the
	Budget	Budget	Expenditure		YTD
	R	R	R	R	Budget
Directorate of Executive Support	2,583,575	1,291,788	1,031,788	259,999	79.87
Directorate of The Municipal Manager	45,185	22,593	4,230	18,363	18.72
Directorate of Chief Operations Officer	21,525	10,763	6,233	4,530	57.91
Directorate of Financial Services	1,856,208	928,104	407,472	520,632	43.90
Directorate of Corporate Services	4,138,765	2,069,383	1,201,106	868,277	58.04
Directorate of Engineering Services	188,392,852	94,196,426	76,612,428	17,583,998	81.33
Electricity	98,809,474	49,404,737	33,402,171	16,002,566	67.61
Water	22,516,872	11,258,436	12,210,486	(952,050)	108.46
Sanitation	19,526,726	9,763,363	9,483,679	279,684	97.14
Roads and Other	47,539,780	23,769,890	21,516,091	2,253,799	90.52
Directorate of Development Planning	12,724,977	6,362,489	5,801,390	561,098	91.18
Directorate of Community Services	19,101,471	9,550,736	7,306,210	2,244,525	76.50
Directorate of Health and Public Safety	5,860,296	2,930,148	1,515,563	1,414,585	51.72
TOTAL	234,724,854	117,362,427	93,886,419	23,476,008	80.00

Other expenditure includes repairs and maintenance as reflected in the table above.

Repairs and Maintenance expenditure efficiency ratio for the half-year ending 31 December 2010 is 80% (R93.9 million). This indicates an increase in expenditure pattern when compared to the previous financial year (2009/2010: 70.5%). The expenditure is generally on track and is expected to improve as the year progress. Refer to **Annexure B: SC13c**.

Table 6: Operational Projects

Directorate	2010/2011 Approved	2010/2011 Adjusted	2010/2011 YTD	2010/2011 Adj. Budg.	2010/2011 %	2010/2011 %
	Budget	Budget	Exp	Less Exp	Exp to Adj.	Projected Yr End Exp to Adj. Budget
	R	R	R	R	Budget	Budget
Dir. of Executive Support Services	26,820,000	35,426,445	2,695,494	32,730,951	8%	91%
Dir. of The Municipal Manager	565,000	8,916,810	422,699	8,494,111	5%	5%
Dir. of Chief Operations Officer	302,962	2,225,440	402,857	1,822,583	18%	61%
Housing Projects	40,383,450	134,122,525	68,798,156	65,324,369	51%	39%
Dir. of Financial Services	14,600,000	16,695,876	2,734,312	13,961,564	16%	79%
Dir. of Corporate Services	10,812,000	10,297,363	948,835	9,348,528	9%	100%
Dir. of Engineering Services		5,667,507	110,991	5,556,516	2%	99%
Dir. of Development Planning	16,201,600	24,302,707	3,782,822	20,519,885	16%	80%
Dir. of Community Services	750,000	1,050,930	0	1,050,930	0%	92%
Dir. of Health and Public Safety	170,000	241,218	0	241,218	0%	100%
TOTAL	110,605,012	238,946,821	79,896,166	159,050,655	33%	78%

Other expenditure includes operating projects as reflected in the table above. Operating projects expenditure for the half-year ending 31 December 2010 is R79.9 million which is 33% of the adjusted budget.

According to the cash flow projections that were provided by directorates the expenditure percentage at the end of the financial year at 30 June 2011 will be 78%. The monthly breakdown is as follows: January: 38%, February: 47% March: 55%, April: 63%, May: 69%, and June: 78%. Cash flow projections have not been submitted for an amount of R51.5 million which is 22% of the adjusted budget of R238.9 million.

Comments on the under expenditure are disclosed in **Annexure D** (Operating projects expenditure report) including cash flow projections for the next six (6) months.

4.3 CAPITAL EXPENDITURE

The total capital expenditure as at 31 December 2010 amounts to R136.29 million which is 18% of the adjusted budget for the 2010/11 financial year of R768.9 million.

According to the cash flow projections that were provided by directorates the expenditure percentage at the end of the financial year at 30 June 2011 will be 76%. The monthly breakdown is as follows: January: 25%, February: 35% March: 46%, April: 57%, May: 66%, and June: 76%. Cash flow projections have not been submitted for an amount of R180.8 million which is 24% of the adjusted budget of R768.9 million. This is mainly caused by R101.9 million from Public Transport Infrastructure Grant for the BRT.

Comments on the under expenditure are disclosed in **Annexure E** (Capital Expenditure Report) including cash flow projections for the next six (6) months.

Table 7: Capital Expenditure per Funding Source against Budget

Funding	<u>2010/2011 Approved Capital Budget</u>	<u>2010/2011 2nd Adjustment Budget</u>	<u>2010/2011 Expenditure YTD</u>	<u>2010/2011 Variance</u>	<u>2010/2011 % Expenditure vs. Adjustment Budget</u>	<u>2010/2011 % Projected Yr End Exp vs. Adjustment Budget</u>
Capital Replacement Reserve	171 842 024	251 095 421	25 145 006	225 950 415	10%	86%
DBSA Loan c/o Phase 4	0	36 346 079	13 083 621	23 262 458	36%	100%
DBSA Loan c/o Phase 5	0	25 095 360	4 571 740	20 523 619	18%	71%
Total Own Funding	171 842 024	312 536 861	42 800 368	269 736 493	14%	86%
Buffalo City Metropolitan Transport c/o	0	713 832	0	713 832	0%	100%
Dept of Eco. Dev, Env .Aff. & Tour c/o	0	5 239	0	5 239	0%	100%
Department of Land Affairs c/o	0	2 015 676	1 697 628	318 048	84%	124%
Dept of Local Gov and Trad. Affairs c/o	0	144 204	129 375	14 829	90%	90%
Dept of Sports Arts & Culture c/o	0	22 204 431	4 582 180	17 622 251	21%	100%
Dept of Science and Technology c/o	0	390 580	0	390 580	0%	55%
Department of Water Affairs c/o	0	24 227	0	24 227	0%	100%
Electricity Demand Side Management	4 000 000	4 000 000	1 559 897	2 440 103	39%	100%
Equitable Share c/o	0	3 317 159	1 258 066	2 059 093	38%	100%
European Commission c/o	0	935 904	0	935 904	0%	94%
Municipal Electricity Provider	20 000 000	20 000 000	1 995 054	18 004 946	10%	32%
Leiden Platform	2 588 000	2 588 000	302 819	2 285 181	12%	102%
Leiden Platform c/o	0	608 065	0	608 065	0%	100%
Dept of Local Gov. and Housing	9 800 000	9 800 000	0	9 800 000	0%	0%
Dept of Local Gov. and Housing c/o	0	30 692 231	2 377 523	28 314 708	8%	86%
Municipal Infrastructure Grant	190 004 332	192 895 301	75 311 156	117 584 145	39%	101%
Municipal Infrastructure Grant c/o	0	46 849 565	4 171 711	42 677 854	9%	99%
Neighbourhood Dev. Part. Grant	10 500 000	10 500 000	0	10 500 000	0%	5%
Neighbourhood Dev. Part. Grant c/o	0	236 181	0	236 181	0%	100%
Office of the Premier	0	500 000	0	500 000	0%	100%
Disaster Management Fund c/o	0	434 401	800	433 601	0%	100%
Public	1 000 000	1 000 000	0	1 000 000	0%	100%
Public Trans. Infrastructure Grant	71 478 000	71 478 000	0	71 478 000	0%	0%
Public Trans. Infrastructure Grant c/o	0	35 004 517	104 278	34 900 239	0%	13%
Total Grant Funding	309 370 332	456 337 514	93 490 487	362 847 027	20%	70%
TOTAL PER FUNDING	481 212 356	768 874 374	136 290 854	632 583 520	18%	76%

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

Table 8: Actual Expenditure per Directorate against Budget

Directorate	<u>2010/2011 Approved Capital Budget</u>	<u>2010/2011 2nd Adjustment Budget</u>	<u>2010/2011 Expenditure YTD</u>	<u>2010/2011 Variance</u>	<u>2010/2011 % Expenditure vs. Adjustment Budget</u>	<u>2010/2011 % Projected Yr End Exp vs. Adjustment Budget</u>
Dir. of Executive Support Services	9 203 000	42 491 647	10 719 974	31 771 674	25%	77%
Dir. of The Municipal Manager	200 000	200 000	0	200 000	0%	0%
Dir. of Chief Operations Officer	10 430 000	41 210 111	2 449 403	38 760 708	6%	65%
Dir. of Financial Services	6 563 000	16 035 318	804 185	15 231 133	5%	19%
Dir. of Corporate Services	6 053 652	9 270 103	1 762 014	7 508 089	19%	100%
Dir. of Engineering Services	274 311 855	367 049 072	94 039 764	273 009 309	26%	91%
Dir. of Development Planning	121 152 360	181 327 826	12 573 962	168 753 864	7%	39%
Dir. of Community Services	38 618 540	66 585 238	8 348 307	58 236 931	13%	95%
Dir. of Health & Public Safety	14 679 949	44 705 059	5 593 245	39 111 814	13%	93%
TOTAL PER DIRECTORATE	481 212 356	768 874 374	136 290 855	632 583 520	18%	76%

* Note: That the budget for the Directorate of Financial Services includes an amount of R 7,696,820 for Insurance Asset Replacement for the entire Buffalo City Municipality. The expenditure percentage with out Insurance Asset Replacement is 9.64%.

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

Table 9: Spending per Service against Budget

Services	<u>2010/2011 Approved Capital Budget</u>	<u>2010/2011 2nd Adjustment Budget</u>	<u>2010/2011 Expenditure YTD</u>	<u>2010/2011 Variance</u>	<u>2010/2011 % Expenditure vs. Adjustment Budget</u>
Water	41 500 000	73 808 669	19 054 546	54 754 122	26%
Waste Water	70 711 855	99 553 658	34 955 307	64 598 352	35%
Electricity	45 800 000	55 682 191	5 570 827	50 111 364	10%
Roads and Stormwater	95 500 000	99 482 344	24 165 321	75 317 023	24%
Housing	9 800 000	40 508 231	2 377 523	38 130 708	6%
Transport Planning	109 052 360	156 725 086	8 466 223	148 258 863	5%
Cleansing	17 500 000	22 570 706	1 646 700	20 924 006	7%
Amenities	18 100 000	33 613 169	5 943 622	27 669 547	18%
Environmental Services	2 500 000	8 678 823	695 365	7 983 458	8%
Health Services	3 392 477	3 424 477	9 341	3 415 136	0%
Public Safety	10 750 000	40 743 110	5 583 904	35 159 206	14%
Support Services	44 075 664	90 703 080	13 333 843	77 369 238	15%
Other	12 530 000	43 380 831	14 488 333	28 892 498	33%
TOTAL PER SERVICE	481 212 356	768 874 374	136 290 855	632 583 520	18%

4.4 EXPENDITURE ON CONDITIONAL GRANTS - DORA ALLOCATION

The 2010/11 financial year adjusted budget includes a DoRA allocation of R302.88 million. The total expenditure on DoRA allocation as at 31 December 2010 amounts to R79.78 million which is 26% of R302.88 million. According to the cash flow projections that were provided by directorates the expenditure percentage at the end of the financial year at 30 June 2011 will be 69%. Cash flow projections have not been submitted for Intergraded National Electrification Programme (R18 million), Public Transport Infrastructure Grant (R71.5 million), Municipal Systems Infrastructure Grant (R0.3 million) and Neighbourhood Development Partnership Grant (R10.5 million). It is however understood that the funding for Neighbourhood Development Partnership Grant will no longer be received in this financial year.

Table 10 below reflects the year to date expenditure on 2010/11 conditional grants DoRA allocation.

Table 10: Spending per Funding/Grant

<u>Funding/Grant</u>	<u>2010/2011 Adjusted Budget</u> R	<u>2010/2011 YTD Expenditure</u> R	<u>2010/2011 Variance</u> R	<u>2010/2011 Expenditure vs. Adjusted Budget</u> %	<u>2010/2011 Projected Yr End Exp vs. Adjusted Budget</u> %
Department of Water Affairs	2 054 622	0	2 054 622	0%	100%
Finance Management Grant	1 200 000	463 958	736 042	38%	100%
Integrated National Elec. Programme	20 000 000	1 995 054	18 004 946	10%	32%
Elec. Demand Side Management Grant	4 000 000	1 559 897	2 440 103	39%	100%
Municipal Infrastructure Grant	192 895 301	75 311 156	117 584 145	39%	101%
Neighbourhood Dev. Partnership Grant	10 500 000	0	10 500 000	0%	5%
Public Transport Infrastructure Grant	71 478 000	0	71 478 000	0%	0%
Municipal Systems Improvement Grant	750 000	448 910	301 090	60%	69%
TOTAL	302 877 923	79 778 975	223 096 246	26%	69%

Comments on under-expenditure

Department of Water Affairs

The funding is made up of Humane Resource (HR) component (R1.8 million) and the Operating and Maintenance (O&M) component (R0.2 million). The expenditure on the HR component has been incurred under basic salaries, a journal entry will be done and once done the expenditure percentage will be around 58%. The roll over of the O&M component was only approved in December, however the funds will be fully spend by year end.

Finance Management Grant

The funding is fully committed on interns' salaries, budget reforms as well as staff training and will be utilized at the end of the financial year.

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 .Work will proceed from the middle of January 2011 at the main site this will increase expenditure.

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 above contracts have been awarded and work is to commence from January 2011 this will increase the expenditure with invoices being received from end January 2011.

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, installation is proceeding and an order for the next batch of a 1000 lights will be placed by mid January 2011.

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.

Municipal Infrastructure Grant

The expenditure report as at 15 December 2010 is R75 311 156 which is equivalent to 39% of the total allocation and BCM has expended about 77% of the National Treasury (DoRA) transfers which is above the required 60% expenditure of the transfers. 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 of R 2 926 312.

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 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.

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 11: Financial Performance Indicators

Reporting Period:		Month ended 31 December 2010			
Indicator		Target	Actual	Variance	Comment
1.	Total Debt to Annual Income:	35%	23.9%	11.1%	The long term a liability of the city amounts 23.9% 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%	90.8%	-6.2%	The annual collection rate is below the desired target of 97%.
4.	Net Debtors to Annual income:	18%	17.5%	0.5%	A net debtor to annual income 17.5% and is within the target.
5.	Personnel Costs to Total Income:	30%	25.2%	4.8%	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.

5. CHALLENGES

The under collection of revenue in some services is a challenge as this might lead to some of the budget operations being not able to be implemented due to insufficient funding.

The collection rate that is not up to the required level and this is having a direct effect on the municipality's cash flow situation and its ability to fund new capital infrastructure developments as well as maintenance and the enhancement of the existing infrastructure.

Low spending on conditional grants is a challenge taking into account circular 51 of the MFMA which is having the following implications:

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 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.

6. FINANCIAL IMPLICATIONS

The under collection in some services as well as the low collection rate is having a direct effect on the cash flow of the Municipality and its ability to fully meet its financial obligations.

The under collection makes it necessary to do an adjustment budget to adjust downwards anticipated income and expenditure into the levels of what the Municipality is able to collect.

7. OTHER PARTIES CONSULTED

All directorates within the Municipality have provided input in the report.

8. RECOMMENDATIONS

It is recommended that:

- a) Council notes the Mid-Year Budget and Performance Assessment Report for the 2010/11 Financial Year in terms of S72 of the MFMA and the Supporting Documentation attached as Annexure A to F.
- b) 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 for the six (6) months ending 31 December 2010,
- c) Council notes that in terms of current cash flow projections the Municipality will be totally dependant on grant funding by 2011/12 financial year to fund its capital infrastructure programme if the debtors collection rate does not improve beyond 95%.
- d) Council considers the tabling of an adjustment budget not later than 28 February 2010, taking into account the following:
 - The appropriation of any additional revenue received during the current financial year.
 - Adjust revenue downward on Electricity and Water Services as the actual billing is less than budget.
 - Any unforeseeable and unavoidable expenditure that has been incurred in the current financial year and approved by the Executive Mayor.
 - Adjustments to the Operating and Capital budget for Virements and transfer of funding.
 - Transfer of projects of an operating nature from the capital budget to the operating budget.
 - Savings on staff budget be utilized to fund additional operating budget requests received from Directorates.

COUNCILOR Z. FAKU
EXECUTIVE MAYOR

DATE _____

ENCLOSED:

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
- SC10 - Parent Municipality Financial Performance (Revenue and Expenditure)
- 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: Institutional Scorecard and the Service Delivery and Budget Implementation Plan

Annexure D: Schedule of Operating Projects

Annexure E: Schedule of Capital Projects

Annexure F: Schedule of Borrowings