

REPORT TO COUNCIL: 29 JANUARY 2020

File No.:5/1/1/1[19/20]

Author: EXECUTIVE MAYOR (XOLA PAKATI)/AS

**UNAUTHORISED EXPENDITURE ADJUSTMENT BUDGET REPORT FOR THE
2018/2019 FINANCIAL YEAR**

1. PURPOSE

The purpose of the report is for the Council to **consider** and **approve** the unauthorised expenditure adjustment budget of Buffalo City Metropolitan Municipality for the 2018/19 financial year as reported and disclosed in the 2018/19 Audited Annual Financial Statements.

2. AUTHORITY

Buffalo City Metropolitan Council

3. LEGAL / STATUTORY REQUIREMENTS

The Constitution of the Republic of South Africa, 1996
Municipal Finance Management Act No 56, 2003
Municipal Budget and Reporting Regulations, 2009

4. BACKGROUND

Unauthorised expenditure is defined in section 1 of the MFMA as follows:

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes —

- (a) overspending of the total amount appropriated in the municipality’s approved budget;

- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

In terms of regulation 23(6)(b) of the MBRR, council may authorise unauthorised expenditure in a special adjustments budget tabled in council when the mayor tables the annual report in terms of section 127(2) of the MFMA. This special adjustment budget "may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2) (a) (i) of the Act." This special adjustment budget therefore deals with:

- i. unauthorised expenditure that occurred in the second half of the previous financial year (2018/19), and
- ii. any unauthorised expenditure identified by the Auditor-General during the annual audit process.

According to the Municipal Budget and Reporting Regulations (MBRR), 2009, (Reg. 21)

"An adjustment budget and supporting documentation of a municipality must be in the format specified in Schedule B and include all the required tables, charts and explanatory information taking into account any guidelines issued by the Minister in terms of S168(1) of the Act" (MFMA).

This report follows the legislative requirements of the Municipal Budget and Reporting Regulations (Schedule B format).

5. EXPOSITION OF FACTS

Unauthorised expenditure was disclosed as legislatively required in terms of GRAP 16 in the Annual Financial Statements (AFS) and was due to overspending on the appropriated amounts of some of the expenditure types in the approved budget.

The main contributor to the consolidated unauthorised expenditure of R40 348 847 is the Employee related costs with an unauthorised expenditure of R25 502 603 and the unauthorised expenditure incurred on the debt impairment amounting to R14 846 244.

Furthermore, misclassifications between mSCOA and GRAP amounting to R36 050 797 were identified during the performance of the 2018/2019 audit. The expenditure types listed below were affected by these misclassifications:

- a) Employee related costs –R3 695 106
- b) Materials – R900 000
- c) Contracted services - R1 265 720
- d) Transfers and subsidies – R29 539 971
- e) Loss on disposal of PPE – R650 000

The following table tabulates the consolidated unauthorised expenditure that has been disclosed in the AFS:

Table 1: Unauthorized expenditure disclosed in 2018/19 Consolidated AFS

UNAUTHORISED EXPENDITURE	2018/2019	2017/2018
	R	R
Opening balance	157 562 251	95 876 117
Expenditure condoned by Council in terms of section 32 of the MFMA.	(157 562 251)	(95 876 117)
Unauthorised expenditure for the year	40 348 847	157 562 251
Closing balance	40 348 847	157 562 251

The main contributor to the parent unauthorised expenditure of R42 977 417 is the Employee related costs with an unauthorised expenditure of R19 771 410, debt impairment with an unauthorised expenditure amounting to R14 846 244 and Transfers and grants with an unauthorised expenditure amounting to R8 359 763.

Furthermore, misclassifications between mSCOA and GRAP amounting to R33 422 227 were identified during the performance of the 2018/2019 audit. The expenditure types listed below were affected by these misclassifications:

- a) Employee related costs –R9 426 299
- b) Materials – R900 000
- c) Contracted services - R1 265 720
- d) Transfers and subsidies – R21 180 208
- e) Loss on disposal of PPE – R650 000

Table 2 below tabulates the parent unauthorised expenditure that has been disclosed in the AFS:

Table 2: Unauthorized expenditure disclosed in 2018/19 BCMM AFS (Parent)

UNAUTHORISED EXPENDITURE	2018/2019	2017/2018
	<u>R</u>	<u>R</u>
Opening balance	160 458 700	95 876 117
Expenditure condoned by Council in terms of section 32 of the MFMA.	(160 458 700)	(95 876 117)
Unauthorised expenditure for the year	42 977 417	160 458 700
Closing balance	42 977 417	160 458 700

5.1 REASONS FOR UNAUTHORISED EXPENDITURE

5.1.1 CONSOLIDATED UNAUTHORISED EXPENDITURE

The unauthorised expenditure incurred has been as a result of over spending of the total amount appropriated to the following expenditure categories:

- a) Employee Related Costs – R25 502 603: This relates to the cost provision that is made for payments of accrued bonus payments and other employee related pay-outs that would be payable should all employees resign or stop to work for the municipality at that particular point (30 June 2019). The amount incurred is a non-cash item that is difficult to project during the budgeting stage. A provision for this cost is required to be raised at the end of the financial year to comply with GRAP 25 of the Accounting Standards, this is done through engagement of actuaries specialised service to calculate the cost estimates.
- b) Debt impairment – R14 846 244: This unauthorised amount results from more debts written off than projected. This is a non-cash item as there is no transaction with any service provider.

As reflected in the above explanations, the unauthorised expenditure was not caused by negligence on the actions of any personnel. It is due to the technical nature of the accounting treatment involved. There is no unauthorised expenditure regarding the total budgeted amount.

Table 3 below provides a breakdown of the consolidated unauthorised expenditure as disclosed on the 2018/2019 Consolidated Annual Financial Statements. The consolidated unauthorised expenditure of R40 348 847 for 2018/19 as set out in table 3 below is as a result of overspending on Employee Related Costs (R25 502 603) and overspending on Debt impairment (R14 846 244).

Table 3: Breakdown of the 2018/19 consolidated unauthorised expenditure per Type

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 of the MFMA)		Actual Outcome	Unauthorised Expenditure
			Fourth Adjustment Budget		
Expenditure By Type					
Employee related costs	1 961 117 601	63 048 599	2 024 166 200	2 049 668 803	(25 502 603)
Remuneration of councillors	65 035 043	(850 000)	64 185 043	63 065 986	0
Debt impairment	343 696 466	14 640 000	358 336 466	373 182 710	(14 846 244)
Depreciation and asset impairment	896 425 520	499 864 238	1 396 289 758	1 296 840 991	0
Finance charges	59 817 900	(20 805 000)	39 012 900	38 467 001	0
Bulk purchases	1 698 509 600	(69 200 000)	1 629 309 600	1 628 956 804	0
Transfers and grants	60 526 334	8 354 328	68 880 662	47 193 237	0
Other expenditure	1 428 162 858	47 197 577	1 475 360 435	1 354 547 457	0
Total Expenditure	6 513 291 322	542 249 742	7 055 541 064	6 851 922 990	(40 348 847)

5.1.2 BCMM UNAUTHORISED EXPENDITURE (PARENT)

The parent unauthorised expenditure incurred has been as a result of over spending of the total amount appropriated to the following expenditure categories:

- a) Employee Related Costs – R19 771 410: This relates to the cost provision that is made for payments of accrued bonus payments and other employee related pay-outs that would be payable should all employees resign or stop to work for the municipality at that particular point (30 June 2019). The amount incurred is a non-cash item that is difficult to project during the budgeting stage. A provision for this cost is required to be raised at the end of the financial year to comply with GRAP 25 of the Accounting Standards, this is done through engagement of actuaries specialised service to calculate the cost estimates.
- b) Debt impairment – R14 846 244: This unauthorised amount results from more debts written off than projected. This is a non-cash item as there is no transaction with any service provider.

- c) Grants and Subsidies Paid – R8 359 763: This resulted from those items that are classified differently in mSCOA reporting than in GRAP.

As reflected in the above explanations, the unauthorised expenditure was not caused by negligence on the actions of any personnel. It is due to the technical nature of the accounting treatment involved. There is no unauthorised expenditure regarding the total budgeted amount.

Table 4 below provides a breakdown of the parent unauthorised expenditure as disclosed on the 2018/2019 BCMM Annual Financial Statements. The parent unauthorised expenditure of R42 977 417 for 2018/19 as set out in table 4 below is as a result of overspending on Employee Related Costs (R19 771 410), overspending on Debt impairment (R14 846 244) and Transfers and Grants (R8 359 763).

Table 4: Breakdown of the 2018/19 BCMM unauthorised expenditure per Type (Parent)

Description	Original Budget	Budget Adjustments (i.t.o. s28 & s31 of the MFMA)	Fourth Adjustment Budget	Actual Outcome	Unauthorised Expenditure
<u>Expenditure By Type</u>					
Employee related costs	1 939 390 696	72 762 152	2 012 152 848	2 031 924 258	(19 771 410)
Remuneration of councillors	64 185 043	0	64 185 043	62 315 518	0
Debt impairment	343 696 466	14 640 000	358 336 466	373 182 710	(14 846 244)
Depreciation and asset impairment	895 013 435	500 000 000	1 395 013 435	1 295 635 456	0
Finance charges	59 807 900	(20 800 000)	39 007 900	38 466 995	0
Bulk purchases	1 698 509 600	(69 200 000)	1 629 309 600	1 628 956 804	0
Transfers and grants	94 850 634	(26 169 942)	68 680 692	77 040 455	(8 359 763)
Other expenditure	1 407 813 097	37 861 322	1 445 674 419	1 342 889 372	0
Total Expenditure	6 503 266 871	509 093 532	7 012 360 403	6 850 411 573	(42 977 417)

TABLE OF CONTENTS

REPORT TO COUNCIL: 29 JANUARY 2020.....	1
1. PURPOSE.....	1
2. AUTHORITY.....	1
3. LEGAL / STATUTORY REQUIREMENTS.....	1
4. BACKGROUND.....	1
5. EXPOSITION OF FACTS.....	3
5.1 REASONS FOR UNAUTHORISED EXPENDITURE.....	5
5.1.1 CONSOLIDATED UNAUTHORISED EXPENDITURE.....	5
5.1.2 BCMM UNAUTHORISED EXPENDITURE (PARENT).....	6
LIST OF TABLES.....	9
ABBREVIATIONS AND ACRONYMS.....	10
PART 1 – ADJUSTMENT BUDGET.....	11
5.2 EXECUTIVE MAYOR’S REPORT.....	11
5.3 COUNCIL RESOLUTIONS.....	13
5.4 EXECUTIVE SUMMARY.....	15
5.5 OPERATING REVENUE FRAMEWORK.....	16
5.6 OPERATING EXPENDITURE FRAMEWORK.....	18
5.6.1 2018/19 BUDGET ADJUSTMENT ON OPERATING PROJECTS.....	19
5.7 CAPITAL EXPENDITURE FRAMEWORK.....	20
PART 2 – SUPPORTING DOCUMENTATION.....	22
6.1 ADJUSTMENT TO BUDGET ASSUMPTIONS.....	22
6.2 ADJUSTMENTS TO ALLOCATIONS OR GRANTS MADE BY THE MUNICIPALITY.....	22
6.3 ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN.....	22
6.4 CHALLENGES.....	22
6.5 STAFF IMPLICATIONS.....	22
6.6 FINANCIAL IMPLICATIONS.....	22
6.7 OTHER PARTIES CONSULTED.....	24
6.8 CITY MANAGER’S QUALITY CERTIFICATE.....	25
ANNEXURES:.....	26

ABBREVIATIONS AND ACRONYMS

AMR	Automated Meter Reading	INEP	Integrated National Electrification Programme
ASGISA	Accelerated and Shared Growth Initiative South Africa	ICT	Information and Communication Technology
BCMM	Buffalo City Metropolitan Municipality	kℓ	kilolitre
BCMDA	Buffalo City Metropolitan Development Agency	km	kilometre
BSC	Budget Steering Committee	KPA	Key Performance Area
CBD	Central Business District	KPI	Key Performance Indicator
CFO	Chief Financial Officer	kWh	kilowatt hour
CM	City Manager	ℓ	litre
CoGTA	Cooperative Government & Traditional Affairs	LED	Local Economic Development
CPI	Consumer Price Index	MBRR	Municipal Budgeting and Reporting Regulations
CRRF	Capital Replacement Reserve Fund	MGDS	Metro Growth and Development Strategy
CDC	Coega Development Corporation	MEC	Member of the Executive Committee
DBSA	Development Bank of South Africa	MFMA	Municipal Financial Management Act
DEDEAT	Department of Economic Development, Environmental Affairs & Tourism	MMC	Member of Mayoral Committee
DoRA	Division of Revenue Act	MPRA	Municipal Properties Rates Act
DWA	Department of Water Affairs	MSA	Municipal Systems Act
ELIDZ	East London Industrial Development Zone	MSCOA	Municipal Standard Chart of Accounts
EE	Employment Equity	MTEF	Medium-term Expenditure Framework
EEDSM	Energy Efficiency Demand Side Management	MTREF	Medium-term Revenue and Expenditure Framework
EM	Executive Mayor	NDPG	Neighbourhood Development Partnership Grant
EPWP	Expanded Public Works Programme	NERSA	National Electricity Regulator South Africa
FBS	Free Basic Services	NGO	Non-Governmental organisations
FMG	Finance Management Grant	PMS	Performance Management System
GDP	Gross Domestic Product	PPE	Property Plant and Equipment
GAMAP	Generally Accepted Municipal Accounting Practice	PPP	Public Private Partnership
GFS	Government Financial Statistics	PTIS	Public Transport Infrastructure System
GRAP	General Recognised Accounting Practice	SALGA	South African Local Government Association
HSDG	Human Settlement Development Grant	SDBIP	Service Delivery Budget Implementation Plan
IDP	Integrated Development Plan	SMME	Small Micro and Medium Enterprises
		USDG	Urban Settlement Development Grant
		WSA	Water Services Authority

PART 1 – ADJUSTMENT BUDGET

5.2 EXECUTIVE MAYOR'S REPORT

The unauthorised budget adjustment is being prepared as informed by the 2018/19 audited Annual Financial Statements (AFS) and in terms of the Municipal Finance Management Act (MFMA), and the Municipal Budget and Reporting Regulations (MBRR).

The main reason for this adjustment budget is the over spending on some of the expenditure types in the municipality's approved budget. This adjustment budget report covers the 2018/19 financial year.

Table 5 below provides a high-level consolidated summary of the Operating and Capital Budget adjustments for the 2018/19 financial year. The table also indicates that there has been no change in the overall total budget for the operating revenue as no extra revenue was realised. It also reflects that there is no change in the overall total capital budget. The operating expenditure budget also remains unchanged.

Table 5: High-level consolidated summary of the 2018/19 Operating and Capital Budget Adjustment

OPERATING AND CAPITAL BUDGET EXPENDITURE	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJUSTMENTS	2018/2019 FIFTH ADJ. BUDGET
Total Revenue	6 550 819 170	6 564 019 170	(6 559 498 790)	0	(6 559 498 790)
Total Operating Expenditure	6 546 861 444	6 560 061 444	6 555 541 064	0	6 555 541 064
Total Capital Expenditure	1 912 299 994	2 099 099 994	2 096 370 374	0	2 096 370 374
Total Opex and Capex Budget	8 459 161 438	8 659 161 438	8 651 911 438	0	8 651 911 438

Table 6 below provides a high-level consolidated summary of the Total Operating Budget Adjustment for 2018/19 financial year:

Table 6: High-level consolidated summary of 2018/19 Total Operating Budget Adjustment

Description	Original Budget	Budget Adjustments (i.t.o. MFMA s28)	Fourth adjustments budget	Budget Adjustments for the 5th adjustment	Fifth Adjustment Budget
Expenditure By Type					
Employee related costs	1 961 117 601	63 048 599	2 024 166 200	29 197 709	2 053 363 909
Remuneration of councillors	65 035 043	(850 000)	64 185 043	0	64 185 043
Debt impairment	343 696 466	14 640 000	358 336 466	14 846 244	373 182 710
Depreciation and asset impairment	896 425 520	(135 762)	896 289 758	(47 480 000)	848 809 758
Finance charges	59 817 900	(20 805 000)	39 012 900	0	39 012 900
Bulk purchases	1 698 509 600	(69 200 000)	1 629 309 600	0	1 629 309 600
Other materials	86 375 631	667 667	87 043 298	900 000	87 943 298
Contracted services	857 589 107	(71 893 563)	785 695 544	1 265 720	786 961 264
Transfers and subsidies	60 526 334	8 354 328	68 880 662	29 539 971	98 420 633
Other expenditure	484 198 120	73 423 473	557 621 593	(28 919 644)	528 701 949
Loss on disposal of PPE	0	45 000 000	45 000 000	650 000	45 650 000
Total Expenditure by Type	6 513 291 322	42 249 742	6 555 541 064	0	6 555 541 064

- a) The adjustments column on the table above indicates the adjustments to be made between the expenditure types.
- b) A downward adjustment of R40 348 847 has been made from Depreciation to address the unauthorised expenditure incurred on the Employee Related Costs of R25 502 603 and on Debt Impairment of R14 846 244.
- c) Downward adjustments of R7 131 153 and R28 919 644 have been made from Depreciation and Other Expenditure respectively to the expenditure types listed below to address the misclassifications between mSCOA and GRAP as identified during the performance of the 2018/2019:
 - i. Employee related costs –R3 695 106
 - ii. Materials – R900 000
 - iii. Contracted services - R1 265 720
 - iv. Transfers and subsidies – R29 539 971
 - v. Loss on disposal of PPE – R650 000

5.3 COUNCIL RESOLUTIONS

On the 23 August 2019 the Council of Buffalo City Metropolitan Municipality met to consider and approve the fourth adjusted budget of 2018/19. In terms of Chapter 4, Section 28 (1) to (7) of the Municipal Finance Management Act No. 56 of 2003, "A municipality may adjust an approved budget through an adjustment budget." According to regulation 23(6)(b) of the MBRR, council may authorise unauthorised expenditure in a special adjustments budget tabled in council when the mayor tables the annual report in terms of section 127(2) of the MFMA.

It is therefore recommended that:

The 2018/19 unauthorised adjustment budget be considered and approved by Council.

- i. The unauthorised expenditure of the Parent Municipality of R42 977 417 incurred on the following expenditure types:
 - a. Employee Related Costs (R19 771 410);
 - b. Debt Impairment (R14 846 244); and
 - c. Transfers and Subsidies (R8 359 763)
- ii. The transfer of the savings identified from Depreciation & Asset Impairment of R42 977 417 to address the unauthorised expenditure as disclosed in the 2018/2019 BCMM Annual Financial Statements (Parent).
- iii. The transfer of R33 422 227 savings identified from Depreciation & Asset Impairment (R4 502 583) and from Other Expenditure (R28 919 644) to address the misclassifications identified during the performance of the 2018/2019 parent audit.
- iv. The Consolidated unauthorised expenditure of R40 348 847 incurred on the following expenditure types:
 - a. Employee Related Costs (R25 502 603)
 - b. Debt Impairment (R14 846 244)
- v. The transfer of the savings identified from Depreciation & Asset Impairment of R40 348 847 to address the unauthorised expenditure as disclosed in the 2018/2019 Consolidated Annual Financial Statements.

- vi. The transfer of R36 050 797 savings identified from Depreciation & Asset Impairment (R7 131 153) and from Other Expenditure (R28 919 644) to address the misclassifications identified during the performance of the 2018/2019 consolidated audit.
- vii. The adjusted Operating Expenditure Budget of the Parent for the 2018/19 financial year that remains unchanged as R6 512 360 403 be approved by Council.
- viii. The adjusted Consolidated Operating Expenditure Budget for the 2018/19 financial year that remains unchanged as R6 555 541 064 be approved by Council.
- ix. The adjusted Operating Revenue Budget of the Parent for the 2018/19 financial year that remains unchanged as R6 513 946 232 be approved by Council.
- x. The adjusted Consolidated Operating Revenue Budget for the 2018/19 financial year that remains unchanged as R6 559 498 790 be approved by Council.
- xi. The adjusted Capital Budget of the Parent for the 2018/19 financial year that remains unchanged as R2 081 998 474 be approved by Council.
- xii. The adjusted Consolidated Capital Budget for the 2018/19 financial year that remains unchanged as R2 096 370 374 be approved by Council.
- xiii. The fifth and final 2018/19 MTREF adjusted budget be approved by Council.



X. PAKATI
EXECUTIVE MAYOR
BUFFALO CITY METROPOLITAN MUNICIPALITY
ANDILE SIHLAHLA / NS

13 / 01 / 2019
DATE

5.4 EXECUTIVE SUMMARY

The Buffalo City Metropolitan Municipality is striving to excel in its governance responsibility. One of the fundamental pillars of achieving governance excellence is ensuring full compliance with applicable legislations. This unauthorised expenditure adjustment budget report is responding to the Municipal Finance Management Act (MFMA) and the Municipal Budget and Reporting Regulations (MBRR) requirements which prescribe that the unauthorised expenditure may be authorised through a special budget adjustment tabled in council when the mayor tables the annual report in terms of section 127(2) of the MFMA.

BCMM undertook an analysis of unauthorised expenditure that has been incurred and disclosed in its 2018/19 AFS. The analysis which has been reported in section 5.1 above of this report revealed that, the incurred unauthorised expenditure has been purely a result of technical misalignment between budget and actual figures due to difficulty in accurately projecting the budget appropriation for each expenditure type as well as misalignment between GRAP and mSCOA. There is no unauthorised expenditure regarding the total budgeted amount.

A special budget adjustment is therefore tabled at Council to authorise the unauthorised expenditure of R40 348 847 that is disclosed in the Consolidated 2018/19 AFS. Savings of R40 348 847 have been identified to transfer to the expenditure types with the unauthorised expenditure. It is therefore necessary that the adjustment budget for 2018/19 financial year be tabled at Council for its consideration and approval.

The total consolidated operating revenue budget for the 2018/19 financial year has not been adjusted and remains R6 559 498 790. The total consolidated operating expenditure budget for the 2018/19 financial year also remains unchanged at R6 555 541 064 because adjustments have been made between the different expenditure types to address the unauthorised expenditure incurred in the 2018/19 financial year. There has been no adjustment made in the capital budget of 2018/19 financial year and remains R2 096 370 374 (Refer to section 5.7 below for details).

5.4.1 OPERATING AND CAPITAL BUDGET ADJUSTMENT

Table 7 below provides a high-level summary of the Operating and Capital Budget adjustments for the financial year, 2018/19. The table also indicates that there has been no change in the overall total budget for the consolidated operating revenue and expenditure budget. It also reflects that there is no change in the overall total capital budget.

Table 7: High-level summary of the 2018/19 Operating and Capital Budget Adjustment

OPERATING AND CAPITAL BUDGET EXPENDITURE	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJUSTMENTS	2018/2019 FIFTH ADJ. BUDGET
Total Revenue	(6 550 819 170)	(6 564 019 170)	(6 559 498 790)	0	(6 559 498 790)
Total Operating Expenditure Excluding Operating Projects	6 210 848 646	6 210 848 646	6 210 848 646		6 210 848 646
Operating Projects	336 012 798	349 212 798	344 692 418	0	344 692 418
Total Operating Expenditure Including Operating Projects	6 546 861 444	6 560 061 444	6 555 541 064	0	6 555 541 064
(Surplus) / Deficit	(3 957 726)	(3 957 726)	(3 957 726)	0	(3 957 726)
Total Capital Expenditure	1 912 299 994	2 099 099 994	2 096 370 374	0	2 096 370 374
Total Opex and Capex Budget	8 459 161 438	8 659 161 438	8 651 911 438	0	8 651 911 438

5.5 OPERATING REVENUE FRAMEWORK

The following table depicts that no adjustments have been made to the operating revenue budget per source for the 2018/19 financial year.

Table 8: 2018/19 Adjusted Revenue per Source

2018/2019 BUDGET REVENUE FRAMEWORK	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJUSTMENTS	2018/2019 FIFTH ADJ. BUDGET
Revenue Per Source					
Property rates	1 417 161 287	1 417 161 287	1 417 161 287	0	1 417 161 287
Service charges - electricity revenue	1 971 508 000	1 971 508 000	1 971 508 000	0	1 971 508 000
Service charges - water revenue	563 042 545	563 042 545	563 042 545	0	563 042 545
Service charges - sanitation revenue	322 142 796	322 142 796	322 142 796	0	322 142 796
Service charges - refuse revenue	294 387 685	294 387 685	294 387 685	0	294 387 685
Rental of facilities and equipment	17 562 732	17 562 732	17 562 732	0	17 562 732
Interest earned - external investments	140 631 103	140 631 103	140 631 103	0	140 631 103
Interest earned - outstanding debtors	54 405 063	54 405 063	54 405 063	0	54 405 063
Fines, penalties and forfeits	16 591 440	16 591 440	16 591 440	0	16 591 440
Licences and permits	14 597 462	14 597 462	14 597 462	0	14 597 462
Agency services	30 527 824	30 527 824	30 527 824	0	30 527 824
Transfers and subsidies	1 508 545 558	1 521 745 558	1 517 225 178	0	1 517 225 178
Other revenue	199 715 675	199 715 675	199 715 675	0	199 715 675
Total Direct Operating Income	6 550 819 170	6 564 019 170	6 559 498 790	0	6 559 498 790

5.6 OPERATING EXPENDITURE FRAMEWORK

The following table indicates the downwards adjustments made from the expenditure types with savings and the upwards adjustments made to expenditure types with unauthorised expenditure.

Table 9: 2018/19 Adjusted Operating Expenditure per Type

Description	Original Budget	Budget Adjustments (i.t.o. MFMA s28)	Fourth adjustments budget	Budget Adjustments for the 5th adjustment	Fifth Adjustment Budget
Expenditure By Type					
Employee related costs	1 961 117 601	63 048 599	2 024 166 200	29 197 709	2 053 363 909
Remuneration of councillors	65 035 043	(850 000)	64 185 043	0	64 185 043
Debt impairment	343 696 466	14 640 000	358 336 466	14 846 244	373 182 710
Depreciation and asset impairment	896 425 520	(135 762)	896 289 758	(47 480 000)	848 809 758
Finance charges	59 817 900	(20 805 000)	39 012 900	0	39 012 900
Bulk purchases	1 698 509 600	(69 200 000)	1 629 309 600	0	1 629 309 600
Other materials	86 375 631	667 667	87 043 298	900 000	87 943 298
Contracted services	857 589 107	(71 893 563)	785 695 544	1 265 720	786 961 264
Transfers and subsidies	60 526 334	8 354 328	68 880 662	29 539 971	98 420 633
Other expenditure	484 198 120	73 423 473	557 621 593	(28 919 644)	528 701 949
Loss on disposal of PPE	0	45 000 000	45 000 000	650 000	45 650 000
Total Expenditure by Type	6 513 291 322	42 249 742	6 555 541 064	0	6 555 541 064

The unauthorised expenditure that has been disclosed on the Consolidated 2018/2019 AFS (R40 348 847) has been incurred on the following expenditure items:

- Employee related costs (R25 502 603)
- Debt impairment (R14 846 244)

A) A Budget amount of R40 348 847 has been adjusted downwards from depreciation to address the consolidated unauthorised expenditure disclosed in the AFS as follows:

- The unauthorised expenditure of R40 348 847 resulting from the employee related costs (R25 502 603) and from debt impairment (R14 846 244)

B) Budget amounts of R7 131 153 and R28 919 644 have been adjusted downwards from Depreciation and from Other expenditure respectively, to the expenditure types listed below, to address the misclassifications identified during the 2018/2019 audit between mSCOA reporting and GRAP:

- Employee related costs –R3 695 106
- Other Materials – R900 000
- Contracted services - R1 265 720
- Transfers and subsidies – R29 539 971
- Loss on disposal of PPE – R650 000

5.6.1 2018/19 Budget Adjustment on Operating Projects

The following (Table 10 & 11), tabulates the operating projects expenditure budget for the 2018/19 financial year per directorate and the funding sources respectively, and depicts that no adjustments have been made on the operating projects expenditure budget for 2018/19 financial year. (Refer to Annexure 1 for details)

Table 10: 2018/19 Adjusted Operating Projects per Directorate

DIRECTORATE	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJ.	2018/2019 FIFTH ADJ. BUDGET
Executive Support Services	41 573 011	41 573 011	41 831 297	0	41 831 297
Municipal Manager's Office	44 132 840	44 132 840	39 530 722	0	39 530 722
Human Settlements	91 811 359	100 011 359	93 265 717	0	93 265 717
Directorate of Financial Services	26 365 213	26 365 213	26 365 213	0	26 365 213
Directorate of Corporate Services	20 710 375	20 710 375	20 700 649	0	20 700 649
Directorate of Infrastructure Services	61 000 000	66 000 000	74 254 888	0	74 254 888
Directorate of Development and Spatial Planning	9 350 000	9 350 000	7 673 932	0	7 673 932
Directorate of Economic Development & Agencies	32 370 000	32 370 000	32 370 000	0	32 370 000
Directorate of Health, Public Safety & Emergency Services	300 000	300 000	300 000	0	300 000
Directorate of Municipal Services	8 400 000	8 400 000	8 400 000	0	8 400 000
TOTAL PER FUNDING	336 012 798	349 212 798	344 692 418	0	344 692 418

Table 11: 2018/19 Adjusted Operating Projects per Funding Source

FUNDING SOURCE	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJUSTMENTS	2018/2019 FIFTH ADJ. BUDGET
Own Funds	145 731 298	145 731 298	145 731 298	0	145 731 298
TOTAL OWN FUNDING	145 731 298	145 731 298	145 731 298	0	145 731 298
Expanded Public Works Programme Incentives Grant	4 050 000	4 050 000	4 050 000	0	4 050 000
Finance Management Grant	1 084 280	1 084 280	1 084 280	0	1 084 280
Human Settlement Development Grant	56 201 024	56 201 024	56 201 024	0	56 201 024
Human Settlement Development Grant c/o	19 797 040	19 797 040	19 797 040	0	19 797 040
Infrastructure Skills Development Grant	10 700 000	10 700 000	10 690 274	0	10 690 274
Public Transport Infrastructure Grant	5 750 000	5 750 000	4 073 932	0	4 073 932
Salaida (Galve)	846 101	846 101	846 101	0	846 101
Urban Settlement Development Grant	82 809 760	96 009 760	93 175 174	0	93 175 174
Municipal Emergency Housing Grant	9 043 295	9 043 295	9 043 295	0	9 043 295
TOTAL GRANTS	190 281 500	203 481 500	198 961 120	0	198 961 120
TOTAL PER FUNDING	336 012 798	349 212 798	344 692 418	0	344 692 418

5.7 CAPITAL EXPENDITURE FRAMEWORK

There have been no adjustments made in the 2018/19 capital budget. The tables (table 12 and 13) below indicates that no adjustments have been made to the capital expenditure budget for the 2018/19 financial year. (Refer to annexure 2 for details)

Table 12: 2018/19 Adjusted Capital Expenditure Budget per Directorate

FUNDING SOURCE	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJUSTMENTS	2018/2019 FIFTH ADJ. BUDGET
Executive Support Services	5 886 795	5 886 795	5 886 795	0	5 886 795
City Manager's Office	113 240 000	94 240 000	137 322 822	0	137 322 822
Corporate Services	781 438	781 438	791 164	0	791 164
Spatial Planning & Development	257 272 816	273 672 816	270 002 437	0	270 002 437
Economic Development & Agencies	61 235 322	61 235 322	61 235 322	0	61 235 322
Finance Services	46 191 696	32 441 696	32 441 696	0	32 441 696
Health/Public Safety & Emergency Services	39 232 335	39 882 335	39 526 576	0	39 526 576
Human Settlements	159 699 931	205 899 931	170 532 198	0	170 532 198
Infrastructure Services	1 021 564 793	1 172 864 793	1 171 189 676	0	1 171 189 676
Municipal Services	182 822 968	187 822 968	184 185 315	0	184 185 315
TOTAL PER DIRECTORATE	1 887 928 094	2 074 728 094	2 073 114 001	0	2 073 114 001
Asset Replacement	10 000 000	10 000 000	8 884 473	0	8 884 473
BCMDA Projects	14 371 900	14 371 900	14 371 900	0	14 371 900
TOTAL PER FUNDING	1 912 299 994	2 099 099 994	2 096 370 374	0	2 096 370 374

Table 13: 2018/19 Adjusted Capital Expenditure Budget Per Funding

FUNDING SOURCE	2018/2019 MID-YEAR ADJ. BUDGET	2018/2019 THIRD ADJ. BUDGET	2018/2019 FOURTH ADJ. BUDGET	ADJUST.	2018/2019 FIFTH ADJ. BUDGET
Own Funds	1 081 676 022	1 081 676 022	1 081 676 022	0	1 081 676 022
TOTAL OWN FUNDING	1 081 676.022	1 081 676 022	1 081 676 022	0	1 081 676 022
Urban Settlements Development Grant	680 182 240	866 982 240	869 816 826	0	869 816 826
Public Transport Network Grant	89 415 000	89 415 000	91 091 068	0	91 091 068
Integrated City Development Grant	10 003 000	10 003 000	10 003 000	0	10 003 000
Infrastructure Skills Development Grant	100 000	100 000	109 726	0	109 726
Neighbourhood Development Partnership Grant	13 250 000	13 250 000	6 000 000	0	6 000 000
Energy Efficiency and Demand Side Management	8 000 000	8 000 000	8 000 000	0	8 000 000
Integrated National Electrification Grant	6 200 000	6 200 000	6 200 000	0	6 200 000
Finance Management Grant	65 720	65 720	65 720	0	65 720
Local Government Housing & Traditional Affairs	9 036 112	9 036 112	9 036 112	0	9 036 112
TOTAL GRANTS	816 252 072	1 003 052 072	1 000 322 452	0	1 000 322 452
TOTAL PER FUNDING	1 897 928 094	2 084 728 094	2 081 998 474	0	2 081 998 474
BCMDA Projects	14 371 900	14 371 900	14 371 900	0	14 371 900
TOTAL CONSOLIDATED CAPITAL PER FUNDING	1 912 299 994	2 099 099 994	2 096 370 374	0	2 096 370 374

PART 2 – SUPPORTING DOCUMENTATION

6.1 ADJUSTMENT TO BUDGET ASSUMPTIONS

The budget assumptions have not been adjusted as a result this adjustment budget does not have an impact on tariffs.

6.2 ADJUSTMENTS TO ALLOCATIONS OR GRANTS MADE BY THE MUNICIPALITY

There have been no adjustments to allocations or grants made by the municipality.

6.3 ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

This adjustment budget is in respect of activities, projects and programmes that were already in the IDP and SDBIP and therefore it has not been necessary to revise these documents.

6.4 CHALLENGES

None

6.5 STAFF IMPLICATIONS

None

6.6 FINANCIAL IMPLICATIONS

The unauthorised expenditure adjustments to the 2018/19 budget does not have an impact on tariffs as these are funded from current operating revenue, grants & subsidies and own funding reserves. The effects of the 2018/19 adjustments to the Operating and Capital Budget are outlined below:

- I. The unauthorised expenditure of the Parent Municipality of R42 977 417 has been incurred on the following expenditure types;
 - Employee related costs (R19 771 410);
 - Debt impairment (R14 846 244); and
 - Grants and subsidies paid (R8 359 763)

- II. Total BCMM parent savings amounting to R42 977 417 have been identified and transferred from Depreciation & Asset impairment to address the BCMM Parent unauthorised expenditure as disclosed in the 2018/2019 BCMM parent Annual Financial Statements

- III. Total BCMM parent savings amounting to R33 422 227 have been identified and transferred from Depreciation & Asset impairment (R4 502 583) and from Other Expenditure (R28 919 644) to address the misclassifications identified during the 2018/2019 audit between mSCOA reporting and GRAP

- IV. The consolidated unauthorised expenditure of R40 348 847 has been incurred on the following types;
 - Employee related costs (R25 502 603); and
 - Debt impairment (R14 846 244)

- V. Total consolidated savings amounting to R40 348 847 have been identified and transferred from Depreciation & Asset impairment to address the consolidated unauthorised expenditure as disclosed in the 2018/2019 consolidated Annual Financial Statements

- VI. Total consolidated savings amounting to R36 050 797 have been identified and transferred from Depreciation & Asset impairment (R7 131 153) and from Other Expenditure (R28 919 644) to address the misclassifications identified during the 2018/2019 audit between mSCOA reporting and GRAP

- VII. The National Treasury B Schedules that have been adjusted in line with the above are herewith enclosed as Annexure 3.

6.7 OTHER PARTIES CONSULTED


All Directorates

6.8 CITY MANAGER'S QUALITY CERTIFICATE

I Andile Sihlahla, City Manager of Buffalo City Metropolitan Municipality, hereby certify that the adjusted budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Andile Sihlahla

City Manager of Buffalo City Metropolitan Municipality (BUF)

Signature 

Date 13.01.2020

ANNEXURES:

Annexure 1: Operating Projects/Programmes – 2018/2019

Annexure 2: Capital Projects/Programmes – 2018/2019

Annexure 3: Parent National Treasury B Schedules – 2018/2019

Annexure 4: Consolidated National Treasury B Schedules – 2018/2019