

## REPORT TO COUNCIL: 31 MAY 2021

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### UNAUTHORISED EXPENDITURE ADJUSTMENT BUDGET REPORT FOR THE 2019/2020 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 2019/2020 financial year as reported and disclosed in the 2019/2020 Audited Annual Financial Statements.

#### 2. AUTHORITY

Buffalo City Metropolitan Council.

#### 3. LEGAL / STATUTORY REQUIREMENTS

- 3.1 The Constitution of the Republic of South Africa, 1996
- 3.2 Municipal Finance Management Act No 56, 2003
- 3.3 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 (2019/2020), and
- ii. any unauthorised expenditure identified by the Auditor-General during the annual audit process.

Due to delays in the finalisation of the Audit by Auditor-General of South Africa, the finalisation of the Audited Annual Financial Statements was also delayed resulting in delay on the submission of the unauthorised Adjustment Budget.

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 consolidated unauthorised expenditure of R17 649 513 is resulting from Debt impairment. This is a result of the increase in debtors primarily due to non-payment by customers within the financial year. The COVID-19 pandemic and increase in billing as a result of punitive tariffs due to the drought have exacerbated the situation.

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

**Table 1: Unauthorized expenditure disclosed in 2019/2020 Consolidated AFS**

| <b>UNAUTHORISED EXPENDITURE</b>                                     | <b>2019/2020</b>  | <b>2018/2019</b>  |
|---|-------------------|-------------------|
|   | <b>R</b>          | <b>R</b>          |
| Opening balance   | 40 348 847        | 157 562 251       |
| Expenditure condoned by Council in terms of section 32 of the MFMA. | (40 348 847)      | (157 562 251)     |
| Unauthorised expenditure for the year                               | 17 649 513        | 40 348 847        |
| <b>Closing balance</b>  | <b>17 649 513</b> | <b>40 348 847</b> |

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

**Table 2: Unauthorized expenditure disclosed in 2019/2020 BCMM AFS (Parent)**

| <b>UNAUTHORISED EXPENDITURE</b>                                     | <b>2019/2020</b>  | <b>2018/2019</b>  |
|---|-------------------|-------------------|
|   | <b>R</b>          | <b>R</b>          |
| Opening balance   | 42 977 417        | 160 458 700       |
| Expenditure condoned by Council in terms of section 32 of the MFMA. | (42 977 417)      | (160 458 700)     |
| Unauthorised expenditure for the year                               | 17 649 513        | 42 977 417        |
| <b>Closing balance</b>  | <b>17 649 513</b> | <b>42 977 417</b> |

## **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 category:

- a) Debt impairment – R17 649 513: This unauthorised amount results from more debts impaired than projected. There has been an increase in debtors primarily due to non-payment by customers within the financial year. The COVID-19 pandemic and increase in billing as a result of punitive tariffs due to the drought have exacerbated the situation.

This is a non-cash item as there is no transaction with any service provider.

As reflected in the above explanation, 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 2019/2020 Consolidated Annual Financial Statements. The consolidated unauthorised expenditure of R17 649 513 for 2019/2020 as set out in table 3 below is as a result of overspending on Debt impairment.

**Table 3: Breakdown of the 2019/2020 consolidated unauthorised expenditure per Type**

| Description                       | Original Budget      | Budget Adjustments (i.t.o. s28 & s31 of the MFMA) | Final Budget         | Actual Outcome       | Unauthorised Expenditure |
|-----------------------------------|----------------------|---|----------------------|----------------------|--------------------------|
| <b><u>Expenditure By Type</u></b> |                      |   |                      |                      |                          |
| Employee related costs            | 2.258.483.447        | 1.873.261   | 2.260.356.708        | 2.204.639.585        |                          |
| Remuneration of councillors       | 69.760.944           | (2.983.000)                                       | 66.777.944           | 66.322.744           |                          |
| Debt impairment                   | 372.832.991          | 211.359.014                                       | 584.192.005          | 601.841.518          | (17.649.513)             |
| Depreciation and asset impairment | 918.128.117          | 793.826.063                                       | 1.711.954.180        | 1.709.671.614        |                          |
| Finance charges                   | 41.004.000           | (8.401.000)                                       | 32.603.000           | 32.563.877           |                          |
| Materials and bulk purchases      | 2.010.702.001        | (142.453.160)                                     | 1.868.248.841        | 1.868.215.018        |                          |
| Transfers and grants              | 48.174.691           | 87.934.154  | 136.108.845          | 131.018.727          |                          |
| Other expenditure                 | 1.423.011.643        | (1.057.148)                                       | 1.421.954.495        | 1.216.169.831        |                          |
| <b>Total Expenditure</b>          | <b>7.142.097.834</b> | <b>940.098.184</b>                                | <b>8.082.196.018</b> | <b>7.830.442.912</b> | <b>(17.649.513)</b>      |

#### **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 category:

- a) Debt impairment – R17 649 513: This unauthorised amount results from more debts impaired than projected. There has been an increase in debtors primarily due to non-payment by customers within the financial year. The COVID-19 pandemic and increase in billing as a result of punitive tariffs due to the drought have exacerbated the situation.

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 4 below provides a breakdown of the parent unauthorised expenditure as disclosed on the 2019/2020 BCMM Annual Financial Statements. The parent

unauthorised expenditure of R17 649 513 for 2019/2020 as set out in table 4 below is as a result of overspending on Debt impairment.

**Table 4: Breakdown of the 2019/2020 BCMM unauthorised expenditure per Type (Parent)**

| Description                       | Original Budget      | Budget Adjustments (i.t.o. s28 & s31 of the MFMA) | Final Budget         | Actual Outcome       | Unauthorised Expenditure |
|-----------------------------------|----------------------|---|----------------------|----------------------|--------------------------|
| <b><u>Expenditure By Type</u></b> |                      |   |                      |                      |                          |
| Employee related costs            | 2.235.468.759        | 3.581.113   | 2.239.049.872        | 2.180.295.557        | 0                        |
| Remuneration of councillors       | 68.485.444           | (3.700.000)                                       | 64.785.444           | 64.687.500           | 0                        |
| Debt impairment                   | 372.832.991          | 211.359.014                                       | 584.192.005          | 601.841.518          | (17.649.513)             |
| Depreciation and asset impairment | 916.366.862          | 794.627.844                                       | 1.710.994.706        | 1.709.074.441        | 0                        |
| Finance charges                   | 41.000.000           | (8.400.000)                                       | 32.600.000           | 32.563.877           | 0                        |
| Materials and bulk purchases      | 2.010.400.244        | (143.439.259)                                     | 1.866.960.985        | 1.866.902.135        | 0                        |
| Transfers and grants              | 47.874.691           | 87.955.422  | 135.830.113          | 130.821.364          | 0                        |
| Other expenditure                 | 1.388.180.157        | (22.619.204)                                      | 1.365.560.953        | 1.190.340.675        | 0                        |
| <b>Total Expenditure</b>          | <b>7.080.609.148</b> | <b>919.364.930</b>                                | <b>7.999.974.078</b> | <b>7.776.527.067</b> | <b>(17.649.513)</b>      |

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## ABBREVIATIONS AND ACRONYMS

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

## PART 1 – ADJUSTMENT BUDGET

### 5.2 EXECUTIVE MAYOR’S REPORT

The unauthorised budget adjustment is being prepared as informed by the 2019/2020 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 2019/2020 financial year.

Table 5 below provides a high-level consolidated summary of the Operating and Capital Budget adjustments for the 2019/2020 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 2019/2020 Operating and Capital Budget Adjustment**

| OPERATING AND<br>CAPITAL BUDGET<br>EXPENDITURE | 2019/2020     | 2019/2020     | 2019/2020     | ADJUST. | 2019/2020     | 2020/2021     | 2021/2022      |
|--|---------------|---------------|---------------|---------|---------------|---------------|----------------|
|  | MID-YEAR      | THIRD         | FOURTH        |         | FIFTH         | FINAL         | FINAL          |
|  | ADJ. BUDGET   | ADJ. BUDGET   | ADJ. BUDGET   |         | ADJ. BUDGET   | BUDGET        | BUDGET         |
| Total Revenue                                  | 7.138.786.183 | 7.146.186.183 | 7.148.400.216 | 0       | 7.148.400.216 | 7.642.810.411 | 8.228.617.399  |
| Total Operating Expenditure                    | 7.132.581.987 | 7.139.981.987 | 7.142.196.020 | 0       | 7.142.196.020 | 7.640.351.864 | 8.225.386.511  |
| Surplus / (Deficit)                            | 6.204.196     | 6.204.196     | 6.204.196     | 0       | 6.204.196     | 2.458.547     | 3.230.888      |
| Total Capital Expenditure                      | 1.900.810.250 | 2.233.410.250 | 2.228.896.217 | 0       | 2.228.896.217 | 1.936.159.755 | 2.054.858.792  |
| Total Opex and Capex Budget                    | 9.033.392.237 | 9.373.392.237 | 9.371.092.237 | 0       | 9.371.092.237 | 9.576.511.619 | 10.280.245.303 |

Table 6 below provides a high-level consolidated summary of the Total Operating Budget Adjustment for 2019/2020 financial year:

**Table 6: High-level consolidated summary of 2019/2020 Total Operating Budget Adjustment**

| 2019/2020 Fourth Adjustment Budget Expenditure Framework | 2019/2020 Mid-Year Adjustment Budget | 2019/2020 Third Adjustment Budget | 2019/2020 Fourth Adjustment Budget | Budget Adjustments for the 5th adjustment | 2019/2020 Fifth Adjustment Budget |
|--|--------------------------------------|-----------------------------------|------------------------------------|---|-----------------------------------|
| <b>Expenditure Per Category</b>                          |                                      |                                   |                                    |   |                                   |
| Employee related costs                                   | 2.263.321.782                        | 2.263.321.782                     | 2.253.421.782                      | (17.649.516)                              | 2.235.772.266                     |
| Remuneration of councillors                              | 68.485.444                           | 68.485.444                        | 64.785.444                         | 0   | 64.785.444                        |
| Debt impairment  | 368.992.005                          | 368.992.005                       | 584.192.005                        | 17.649.516                                | 601.841.521                       |
| Depreciation & asset impairment                          | 869.954.180                          | 869.954.180                       | 771.954.180                        | 0   | 771.954.180                       |
| Finance charges  | 33.003.000                           | 33.003.000                        | 32.603.000                         | 0   | 32.603.000                        |
| Bulk purchases:  |                                      |                                   |                                    |   |                                   |
| Electricity Bulk Purchases                               | 1.664.825.282                        | 1.664.825.282                     | 1.528.625.282                      | 0   | 1.528.625.282                     |
| Water Bulk Purchases                                     | 256.536.226                          | 256.536.226                       | 243.836.226                        | 0   | 243.836.226                       |
| Contracted services                                      | 196.440.069                          | 192.351.425                       | 183.451.425                        | 0   | 183.451.425                       |
| Transfers and grants                                     | 77.711.505                           | 72.892.032                        | 68.392.032                         | 0   | 68.392.032                        |
| Repairs and Maintenance                                  | 397.610.135                          | 391.910.085                       | 387.130.753                        | 0   | 387.130.753                       |
| Operating projects                                       | 416.159.483                          | 423.559.483                       | 425.773.516                        | 0   | 425.773.516                       |
| Other expenditure  | 449.334.239                          | 454.195.597                       | 504.268.177                        | 0   | 504.268.177                       |
| Other materials  | 70.208.636                           | 79.955.445                        | 93.762.197                         | 0   | 93.762.197                        |
| <b>Total Direct Operating Expenditure</b>                | <b>7.132.581.986</b>                 | <b>7.139.981.986</b>              | <b>7.142.196.019</b>               | <b>0</b>                                  | <b>7.142.196.019</b>              |

- a) The adjustments column on the table above indicates the adjustments to be made between the expenditure types.
- b) A downward adjustment of R17 649 516 has been made from Employee related costs to address the unauthorised expenditure incurred on Debt impairment of R17 649 516.

### **5.3 COUNCIL RESOLUTIONS**

On 29 May 2019 the Council of Buffalo City Metropolitan Municipality met to consider, approve and adopt the 2019/20 – 2021/22 MTREF Budget. The Council further met on 23 August 2019 to consider and approve the roll-over adjustment budget. On the 26th February 2020 the Council met to consider and approve the mid-year adjustment budget. On the 12th June 2020 the Council met to consider

and approve the third adjustment budget. On the 28th August 2020 the Council met to consider and approve the fourth adjustment budget. 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."

**It is therefore recommended that the BCMM Council considers and approves:**

- A. The adjusted budget of the Parent municipality (BCMM) for the 2019/2020 Fifth Adjustment Budget as follows:
- i. The unauthorised expenditure of the Parent Municipality of R17 649 513 incurred on Debt impairment.
  - ii. The transfer of the savings identified from Employee related costs of R17 649 513 to address the unauthorised expenditure as disclosed in the 2019/2020 BCMM Annual Financial Statements (Parent).
  - iii. The adjusted Operating Revenue Budget of the Parent for the 2019/2020 financial year that remains unchanged as R7 060 876 277 be approved by Council.
  - iv. The adjusted Operating Expenditure Budget of the Parent for the 2019/2020 financial year that remains unchanged as R7 059 974 079 be approved by Council.
  - v. The adjusted Capital Budget of the Parent municipality for the 2019/2020 financial year that remains unchanged as R2 226 614 215 be approved by Council.
- B. The Consolidated adjusted budget of BCMM for the 2019/2020 Fifth Adjustment Budget as follows:
- i. The Consolidated unauthorised expenditure of R17 649 513 incurred on Debt impairment.
  - ii. The transfer of the savings identified from Employee relates costs of R17 649 513 to address the unauthorised expenditure as disclosed in the 2019/2020 Consolidated Annual Financial Statements.

- iii. The adjusted Consolidated Operating Revenue Budget for the 2019/2019 financial year that remains unchanged as R7 148 400 216 be approved by Council.
- iv. The adjusted Consolidated Operating Expenditure Budget for the 2019/20 financial year that remains unchanged as R7 142 196 020 be approved by Council.
- v. The adjusted Consolidated Capital Budget for the 2019/20 financial year that remains unchanged as R2 228 896 217 be approved by Council.

C. The fifth and final 2019/20 financial year adjusted budget be approved by Council.



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

11/05/2021.  
**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. Due to delays in the finalisation of the Audit by Auditor-General of South Africa, the finalisation of the Audited Annual Financial Statements was also delayed resulting in delay on the submission of the unauthorised Adjustment Budget.

BCMM undertook an analysis of unauthorised expenditure that has been incurred and disclosed in its 2019/2020 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 the increase in debtors primarily due to non-payment by customers within the financial year. 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 R17 649 513 that is disclosed in the Consolidated 2019/2020 AFS. Savings of R17 649 513 have been identified to transfer to the expenditure type with the unauthorised expenditure. It is therefore necessary that the adjustment budget for 2019/2020 financial year be tabled at Council for its consideration and approval.

The total consolidated operating revenue budget for the 2019/2020 financial year has not been adjusted and remains R7 148 400 216. The total consolidated operating expenditure budget for the 2019/2020 financial year also remains unchanged at R7 142 196 020 because adjustments have been made between the different expenditure types to address the unauthorised expenditure incurred in the 2019/2020 financial year. There has been no adjustment made in the capital

budget of 2019/2020 financial year and remains R2 228 896 217 (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, 2019/2020. 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 2019/2020 Operating and Capital Budget Adjustment**

| OPERATING AND CAPITAL BUDGET EXPENDITURE                        | 2019/2020            | 2019/2020            | 2019/2020            | ADJUSTMENTS | 2019/2020            | 2020/2021            | 2021/2022             |
|---|----------------------|----------------------|----------------------|-------------|----------------------|----------------------|-----------------------|
|   | MID-YEAR ADJ. BUDGET | THIRD ADJ. BUDGET    | THIRD ADJ. BUDGET    |             | THIRD ADJ. BUDGET    | FINAL BUDGET         | FINAL BUDGET          |
| <b>Total Revenue</b>  | <b>7.138.786.183</b> | <b>7.146.186.183</b> | <b>7.148.400.216</b> | <b>0</b>    | <b>7.148.400.216</b> | <b>7.642.810.411</b> | <b>8.228.617.399</b>  |
| <b>Total Operating Expenditure Excluding Operating Projects</b> | <b>6.716.422.504</b> | <b>6.716.422.504</b> | <b>6.716.422.504</b> | <b>0</b>    | <b>6.716.422.504</b> | <b>7.191.232.493</b> | <b>7.705.033.563</b>  |
| <b>Operating Projects</b>                                       | <b>416.159.483</b>   | <b>423.559.483</b>   | <b>425.773.516</b>   | <b>0</b>    | <b>425.773.516</b>   | <b>449.119.371</b>   | <b>520.352.948</b>    |
| <b>Total Operating Expenditure Including Operating Projects</b> | <b>7.132.581.987</b> | <b>7.139.981.987</b> | <b>7.142.196.020</b> | <b>0</b>    | <b>7.142.196.020</b> | <b>7.640.351.864</b> | <b>8.225.386.511</b>  |
| <b>Surplus / (Deficit)</b>                                      | <b>6.204.196</b>     | <b>6.204.196</b>     | <b>6.204.196</b>     | <b>0</b>    | <b>6.204.196</b>     | <b>2.458.547</b>     | <b>3.230.888</b>      |
|   |                      |                      |                      |             |                      |                      |                       |
| <b>Total Capital Expenditure</b>                                | <b>1.900.810.250</b> | <b>2.233.410.250</b> | <b>2.228.896.217</b> | <b>0</b>    | <b>2.228.896.217</b> | <b>1.936.159.755</b> | <b>2.054.858.792</b>  |
|   |                      |                      |                      |             |                      |                      |                       |
| <b>Total Opex and Capex Budget</b>                              | <b>9.033.392.237</b> | <b>9.373.392.237</b> | <b>9.371.092.237</b> | <b>0</b>    | <b>9.371.092.237</b> | <b>9.576.511.619</b> | <b>10.280.245.303</b> |

## 5.5 OPERATING REVENUE FRAMEWORK

The following table depicts that no adjustments have been made to the operating revenue budget per source for the 2019/20 financial year.

**Table 8: 2019/20 Adjusted Revenue per Source**

| 2019/2020 FOURTH<br>ADJUSTMENT BUDGET<br>REVENUE &<br>EXPENDITURE<br>FRAMEWORK | 2019/2020 MID-<br>YEAR<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>THIRD<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>FOURTH<br>ADJUSTMENT<br>BUDGET | ADJUST.  | 2019/2020<br>FIFTH<br>ADJUSTMENT<br>BUDGET |
|--|--|--|---|----------|--|
| <b>Revenue by Source</b>   |  |  |   |          |  |
| Property rates   | 1.552.050.927                                  | 1.552.050.927                              | 1.552.050.927                               | 0        | 1.552.050.927                              |
| Service charges - electricity revenue  | 2.110.128.954                                  | 2.110.128.954                              | 2.110.128.954                               | 0        | 2.110.128.954                              |
| Service charges - water revenue  | 583.148.545                                    | 583.148.545                                | 583.148.545                                 | 0        | 583.148.545                                |
| Service charges - sanitation revenue   | 363.587.047                                    | 363.587.047                                | 363.587.047                                 | 0        | 363.587.047                                |
| Service charges - refuse revenue   | 310.977.934                                    | 310.977.934                                | 310.977.934                                 | 0        | 310.977.934                                |
| Rental of facilities and equipment   | 19.213.628                                     | 19.213.628                                 | 19.213.628                                  | 0        | 19.213.628                                 |
| Interest earned - external investments   | 89.553.754                                     | 89.553.754                                 | 89.553.754                                  | 0        | 89.553.754                                 |
| Interest earned - outstanding debtors  | 80.964.733                                     | 80.964.733                                 | 80.964.733                                  | 0        | 80.964.733                                 |
| Fines, penalties and forfeits  | 18.134.443                                     | 18.134.443                                 | 18.134.443                                  | 0        | 18.134.443                                 |
| Licences and permits   | 15.955.025                                     | 15.955.025                                 | 15.955.025                                  | 0        | 15.955.025                                 |
| Agency services  | 33.838.894                                     | 33.838.894                                 | 33.838.894                                  | 0        | 33.838.894                                 |
| Transfers and subsidies - Operating  | 1.231.796.995                                  | 1.239.196.995                              | 1.241.411.028                               | 0        | 1.241.411.028                              |
| Other revenue  | 729.435.304                                    | 729.435.304                                | 729.435.304                                 | 0        | 729.435.304                                |
| <b>Total Direct Operating Expenditure</b>                                      | <b>7.138.786.183</b>                           | <b>7.146.186.183</b>                       | <b>7.148.400.216</b>                        | <b>0</b> | <b>7.148.400.216</b>                       |



## 5.6 OPERATING EXPENDITURE FRAMEWORK

The following table indicates the downwards adjustment made from the expenditure type with savings and the upward adjustment made to expenditure type with unauthorised expenditure.

**Table 9: 2019/2020 Adjusted Operating Expenditure per Type**

| 2019/2020 FOURTH<br>ADJUSTMENT BUDGET<br>EXPENDITURE FRAMEWORK | 2019/2020<br>MID-YEAR<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>THIRD<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>FOURTH<br>ADJUSTMENT<br>BUDGET | ADJUST.      | 2019/2020<br>FIFTH<br>ADJUSTMENT<br>BUDGET |
|--|---|--|---|--------------|--|
| <b>Expenditure Per Category</b>                                |   |  |   |              |  |
| Employee related costs   | 2.263.321.782                                 | 2.263.321.782                              | 2.253.421.782                               | (17.649.516) | 2.235.772.266                              |
| Remuneration of councillors                                    | 68.485.444                                    | 68.485.444                                 | 64.785.444                                  | 0            | 64.785.444                                 |
| Debt impairment  | 368.992.005                                   | 368.992.005                                | 584.192.005                                 | 17.649.516   | 601.841.521                                |
| Depreciation & asset impairment                                | 869.954.180                                   | 869.954.180                                | 771.954.180                                 | 0            | 771.954.180                                |
| Finance charges  | 33.003.000                                    | 33.003.000                                 | 32.603.000                                  | 0            | 32.603.000                                 |
| Bulk purchases:  |   |  |   |              |  |
| Electricity Bulk Purchases                                     | 1.664.825.282                                 | 1.664.825.282                              | 1.528.625.282                               | 0            | 1.528.625.282                              |
| Water Bulk Purchases   | 256.536.226                                   | 256.536.226                                | 243.836.226                                 | 0            | 243.836.226                                |
| Contracted services  | 196.440.069                                   | 192.351.425                                | 183.451.425                                 | 0            | 183.451.425                                |
| Transfers and grants   | 77.711.505                                    | 72.892.032                                 | 68.392.032                                  | 0            | 68.392.032                                 |
| Repairs and Maintenance  | 397.610.135                                   | 391.910.085                                | 387.130.753                                 | 0            | 387.130.753                                |
| Operating projects   | 416.159.483                                   | 423.559.483                                | 425.773.516                                 | 0            | 425.773.516                                |
| Other expenditure  | 449.334.239                                   | 454.195.597                                | 504.268.177                                 | 0            | 504.268.177                                |
| Other materials  | 70.208.636                                    | 79.955.445                                 | 93.762.197                                  | 0            | 93.762.197                                 |
| <b>Total Direct Operating<br/>Expenditure</b>                  | <b>7.132.581.986</b>                          | <b>7.139.981.986</b>                       | <b>7.142.196.019</b>                        | <b>0</b>     | <b>7.142.196.019</b>                       |

- The unauthorised expenditure that has been disclosed on the Consolidated 2019/2020 AFS (R17 649 513) has been incurred on Debt impairment.
- A budget amount of R17 649 513 has been adjusted downwards from the Employee related costs to cover the unauthorised expenditure.

### 5.6.1 2019/2020 Budget Adjustment on Operating Projects

The following (Table 10 & 11), tabulates the operating projects expenditure budget for the 2019/2020 financial year per directorate and the funding sources respectively, and depicts that no adjustments have been made on the operating projects expenditure budget for 2019/2020 financial year. (Refer to Annexure 1 for details)

**Table 10: 2019/2020 Adjusted Operating Projects per Directorate**

| DIRECTORATE                               | 2019/2020<br>MID-YEAR<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>THIRD<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>FOURTH<br>ADJUSTMENT<br>BUDGET | ADJUST.  | 2019/2020<br>FIFTH<br>ADJUSTMENT<br>BUDGET |
|---|---|--|---|----------|--|
| EXECUTIVE SUPPORT SERVICES                | 66.024.240                                    | 66.024.240                                 | 68.055.686                                  | 0        | 68.055.686                                 |
| CITY MANAGER'S OFFICE                     | 37.398.960                                    | 37.398.960                                 | 44.296.938                                  | 0        | 44.296.938                                 |
| CORPORATE SERVICES                        | 14.825.000                                    | 14.825.000                                 | 10.025.000                                  | 0        | 10.025.000                                 |
| SPATIAL PLANNING & DEVELOPMENT            | 14.700.944                                    | 14.700.944                                 | 11.284.187                                  | 0        | 11.284.187                                 |
| ECONOMIC DEVELOPMENT & AGENCIES           | 20.000.000                                    | 20.000.000                                 | 19.265.815                                  | 0        | 19.265.815                                 |
| FINANCE SERVICES                          | 15.742.000                                    | 15.742.000                                 | 15.742.169                                  | 0        | 15.742.169                                 |
| HEALTH/PUBLIC SAFETY & EMERGENCY SERVICES | 1.280.000                                     | 1.280.000                                  | 630.000                                     | 0        | 630.000                                    |
| HUMAN SETTLEMENTS                         | 176.288.339                                   | 180.288.339                                | 177.723.189                                 | 0        | 177.723.189                                |
| INFRASTRUCTURE SERVICES                   | 60.000.000                                    | 63.400.000                                 | 72.363.424                                  | 0        | 72.363.424                                 |
| MUNICIPAL SERVICES                        | 9.900.000                                     | 9.900.000                                  | 6.387.107                                   | 0        | 6.387.107                                  |
| <b>TOTAL OPERATING PROJECTS BUDGET</b>    | <b>416.159.483</b>                            | <b>423.559.483</b>                         | <b>425.773.515</b>                          | <b>0</b> | <b>425.773.515</b>                         |

**Table 11: 2019/2020 Adjusted Operating Projects per Funding Source**

| FUNDING SOURCE                          | 2019/2020<br>MID-YEAR<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>THIRD<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>FOURTH<br>ADJUSTMENT<br>BUDGET | ADJUST.  | 2019/2020<br>FIFTH<br>ADJUSTMENT<br>BUDGET |
|---|---|--|---|----------|--|
| OWN FUNDING                             | 135.594.494                                   | 135.594.494                                | 135.594.494                                 | 0        | 135.594.494                                |
| <b>TOTAL OWN FUNDING</b>                | <b>135.594.494</b>                            | <b>135.594.494</b>                         | <b>135.594.494</b>                          | <b>0</b> | <b>135.594.494</b>                         |
|   |   |  |   | 0        |  |
| URBAN SETTLEMENT DEVELOPMENT GRANT      | 79.442.960                                    | 86.842.960                                 | 91.356.824                                  | 0        | 91.356.824                                 |
| PUBLIC TRANSPORT INFRASTRUCTURE GRANT   | 3.850.000                                     | 3.850.000                                  | 3.850.000                                   | 0        | 3.850.000                                  |
| FINANCE MANAGEMENT GRANT                | 942.000                                       | 942.000                                    | 942.169                                     | 0        | 942.169                                    |
| INFRASTRUCTURE SKILLS DEVELOPMENT GRANT | 11.150.000                                    | 11.150.000                                 | 8.850.000                                   | 0        | 8.850.000                                  |
| EXPANDED PUBLIC WORKS PROGRAMME         | 9.956.000                                     | 9.956.000                                  | 9.956.000                                   | 0        | 9.956.000                                  |
| HUMAN SETTLEMENTS DEVELOPMENT GRANT     | 174.788.339                                   | 174.788.339                                | 174.788.339                                 | 0        | 174.788.339                                |
| SALIDA C/O                              | 435.689                                       | 435.689                                    | 435.689                                     | 0        | 435.689                                    |
| <b>TOTAL GRANTS</b>                     | <b>280.564.988</b>                            | <b>287.964.988</b>                         | <b>290.179.021</b>                          | <b>0</b> | <b>290.179.021</b>                         |
|   |   |  |   |          |  |
| <b>TOTAL OPERATING PROJECTS BUDGET</b>  | <b>416.159.482</b>                            | <b>423.559.482</b>                         | <b>425.773.515</b>                          | <b>0</b> | <b>425.773.515</b>                         |

## 5.7 CAPITAL EXPENDITURE FRAMEWORK

There have been no adjustments made in the 2019/2020 capital budget. The tables (table 12 and 13) below indicates that no adjustments have been made to the capital expenditure budget for the 2019/20 financial year. (Refer to annexure 2 for details)

**Table 12: 2019/2020 Adjusted Capital Expenditure Budget per Directorate**

| CAPITAL BUDGET PER DIRECTORATE            | 2019/2020<br>MID-YEAR<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>THIRD<br>ADJUSTMENT<br>BUDGET | 2019/2020<br>FOURTH<br>ADJUSTMENT<br>BUDGET | ADJUST.  | 2019/2020<br>FIFTH<br>ADJUSTMENT<br>BUDGET |
|---|---|--|---|----------|--|
| EXECUTIVE SUPPORT SERVICES                | 3.500.000                                     | 3.500.000                                  | 3.500.000                                   | 0        | 3.500.000                                  |
| CITY MANAGER'S OFFICE                     | 6.744.045                                     | 6.744.045                                  | 6.744.045                                   | 0        | 6.744.045                                  |
| CORPORATE SERVICES                        | 46.023.896                                    | 46.023.896                                 | 46.023.896                                  | 0        | 46.023.896                                 |
| SPATIAL PLANNING & DEVELOPMENT            | 343.462.088                                   | 359.762.088                                | 359.762.088                                 | 0        | 359.762.088                                |
| ECONOMIC DEVELOPMENT & AGENCIES           | 93.721.908                                    | 113.721.908                                | 113.721.908                                 | 0        | 113.721.908                                |
| FINANCE SERVICES                          | 132.471.234                                   | 132.471.234                                | 132.471.065                                 | 0        | 132.471.065                                |
| HEALTH/PUBLIC SAFETY & EMERGENCY SERVICES | 28.306.810                                    | 28.306.810                                 | 28.306.810                                  | 0        | 28.306.810                                 |
| HUMAN SETTLEMENTS                         | 252.781.590                                   | 451.781.590                                | 451.781.590                                 | 0        | 451.781.590                                |
| INFRASTRUCTURE SERVICES                   | 764.664.857                                   | 861.964.857                                | 857.450.993                                 | 0        | 857.450.993                                |
| MUNICIPAL SERVICES                        | 226.851.822                                   | 226.851.822                                | 226.851.822                                 | 0        | 226.851.822                                |
| <b>TOTAL CAPITAL BUDGET: BCMM</b>         | <b>1.898.528.250</b>                          | <b>2.231.128.250</b>                       | <b>2.226.614.217</b>                        | <b>0</b> | <b>2.226.614.217</b>                       |
| BCMDA                                     | 2.282.000                                     | 2.282.000                                  | 2.282.000                                   | 0        | 2.282.000                                  |
| <b>TOTAL CAPITAL: CONSOLIDATED</b>        | <b>1.900.810.250</b>                          | <b>2.233.410.250</b>                       | <b>2.228.896.217</b>                        | <b>0</b> | <b>2.228.896.217</b>                       |

**Table 13: 2019/2020 Adjusted Capital Expenditure Budget Per Funding**

| <b>CAPITAL BUDGET PER FUNDING</b>                 | <b>2019/2020<br/>MID-YEAR<br/>ADJUSTMENT<br/>BUDGET</b> | <b>2019/2020<br/>THIRD<br/>ADJUSTMENT<br/>BUDGET</b> | <b>2019/2020<br/>FOURTH<br/>ADJUSTMENT<br/>BUDGET</b> | <b>ADJUST.</b> | <b>2019/2020<br/>FIFTH<br/>ADJUSTMENT<br/>BUDGET</b> |
|---|---|--|---|----------------|--|
| <b>OWN FUNDING</b>                                | 909.555.722   | 909.555.722  | 909.555.722   | 0              | 909.555.722  |
| <b>TOTAL OWN FUNDING</b>                          | 909.555.722   | 909.555.722  | 909.555.722   | 0              | 909.555.722  |
|   |   |  |   |                |  |
| LGTH C/O  | 1.580.488   | 1.580.488  | 1.580.488   | 0              | 1.580.488  |
| BCMET   | 487.000   | 487.000  | 487.000   | 0              | 487.000  |
| FINANCE MANAGEMENT GRANT                          | 58.000  | 58.000   | 57.831  | 0              | 57.831   |
| URBAN SETTLEMENT<br>DEVELOPMENT GRANT             | 737.980.040   | 1.070.580.040  | 1.066.066.176   | 0              | 1.066.066.176  |
| PUBLIC TRANSPORT<br>INFRASTRUCTURE GRANT          | 230.616.000   | 230.616.000  | 230.616.000   | 0              | 230.616.000  |
| INTERGRATED CITY<br>DEVELOPMENT GRANT             | 10.383.000  | 10.383.000   | 10.383.000  | 0              | 10.383.000   |
| NEIGHBOURHOOD<br>DEVELOPMENT PARTNERSHIP<br>GRANT | 10.000.000  | 10.000.000   | 10.000.000  | 0              | 10.000.000   |
| INFRASTRUCTURE SKILLS<br>DEVELOPMENT GRANT        | 150.000   | 150.000  | 150.000   | 0              | 150.000  |
| <b>TOTAL GRANTS</b>                               | 991.254.528   | 1.323.854.528  | 1.319.340.495   | 0              | 1.319.340.495  |
|   |   |  |   |                |  |
| <b>TOTAL CAPITAL: CONSOLIDATED</b>                | 1.900.810.250   | 2.233.410.250  | 2.228.896.217   | 0              | 2.228.896.217  |

## **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 2019/20 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 2019/20 adjustments to the Operating and Capital Budget are outlined below:

A. The adjusted budget of the Parent municipality (BCMM) for the 2020/2021 Fifth Adjustment Budget as follows:

- i. The unauthorised expenditure of the Parent Municipality of R17 649 513 incurred on Debt impairment
- ii. The transfer of the savings identified from Employee related costs of R17 649 513 to address the unauthorised expenditure as disclosed in the 2019/2020 BCMM Annual Financial Statements (Parent).
- iii. The adjusted Operating Revenue Budget of the Parent for the 2019/20 financial year that remains unchanged as R7 060 876 277 be approved by Council.
- iv. The adjusted Operating Expenditure Budget of the Parent for the 2019/20 financial year that remains unchanged as R7 059 974 079 be approved by Council.
- v. The adjusted Capital Budget of the Parent for the 2019/20 financial year that remains unchanged as R2 226 614 215 be approved by Council.

B. The Consolidated adjusted budget of BCMM for the 2020/2021 Fifth Adjustment Budget as follows:

- i. The Consolidated unauthorised expenditure of R17 649 513 incurred on Debt impairment
- ii. The transfer of the savings identified from Employee relates costs of R17 649 513 to address the unauthorised expenditure as disclosed in the 2019/2020 Consolidated Annual Financial Statements.
- iii. The adjusted Consolidated Operating Revenue Budget for the 2019/2019 financial year that remains unchanged as R7 148 400 216 be approved by Council.
- iv. The adjusted Consolidated Operating Expenditure Budget for the 2019/20 financial year that remains unchanged as R7 142 196 020 be approved by Council.
- v. The adjusted Consolidated Capital Budget for the 2019/20 financial year that remains unchanged as R2 228 896 217 be approved by Council.

C. The National Treasury B Schedules that have been adjusted in line with the above are herewith enclosed as Annexure 3 and Annexure 4.

**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 adjustment 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 10 May 2021



**ANNEXURES:**

Annexure 1: Operating Projects/Programmes – 2019/2020

Annexure 2: Capital Projects/Programmes – 2019/2020

Annexure 3: Parent National Treasury B Schedules – 2019/2020

Annexure 4: Consolidated National Treasury B Schedules – 2019/2020