

## **REPORT TO COUNCIL: 25 AUGUST 2021**

File No.:5/1/1/1[20/21]

Author: EXECUTIVE MAYOR (XOLA PAKATI)/AS

### **2020/2021 FIFTH ADJUSTMENT BUDGET REPORT**

#### **1. PURPOSE**

The purpose of the report is for Council to **consider** and **approve** the fifth adjustment budget report of Buffalo City Metropolitan Municipality for the 2020/2021 financial year in terms of section 28 of the MFMA.

#### **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 Chapter 4, Section 28

Municipal Budget and Reporting Regulations, 2009

#### **4. BACKGROUND**

In terms of Section 28, of the Municipal Finance Management Act No. 56, 2003, Chapter 4, the following applies: -

*(1) "A municipality may revise an approved annual budget through an adjustment budget.*

*(2) An adjustments budget—*

- a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*
- b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*
- c) may, within a prescribed framework, authorise unforeseeable and*

- unavoidable expenditure recommended by the mayor of the municipality;*
- d) may authorise the utilisation of projected savings in one vote towards spending under another vote;*
  - e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*
  - f) may correct any errors in the annual budget; and*
  - g) may provide for any other expenditure within a prescribed framework.*
- (3) An adjustments budget must be in a prescribed form.*
- (4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.*
- (5) When an adjustments budget is tabled, it must be accompanied by—*
- a) an explanation how the adjustments budget affects the annual budget;*
  - b) a motivation of any material changes to the annual budget;*
  - c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and*
  - d) any other supporting documentation that may be prescribed.*
- (6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.*
- (7) Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.”*

This report responds to the above sections of MFMA (28(2)(f)) and its format follows the legislative requirements of the Municipal Budget and Reporting Regulations (Schedule B format).

## 5. EXPOSITION OF FACTS

The fifth adjustment budget is being prepared for the purpose of correcting identified errors in the annual budget that are mostly as a result of misallocations made during the 2020/2021 financial year. Some of the misallocations were within capital and / operating budget but between expenditure types and votes. It is necessary to correct these misallocations to reduce / eliminate unauthorised expenditure that is reported in the Annual Financial Statements. This process also assists in improving the City's expenditure performance.

An intensive process of assessing the transactions allocated to the operating and capital budget was undertaken and such misallocations were detected and are being corrected in line with the requirements of section 28(2) (f) of the MFMA. This process is in line with the Metro's Budget Management Policy, MBRR and MFMA and other National Treasury guidelines such as MFMA Budget Circulars.

The following table provides a high-level summary of the Operating and Capital Budget Adjustments:

### A. The following table provides a high-level summary of the Operating and Capital Budget Adjustments for the Parent Municipality (BCMM):

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021	2020/2021	ADJUST.	2020/2021	2021/2022	2022/2023
	MID-YEAR ADJ. BUDGET	FOURTH ADJ. BUDGET		FIFTH ADJ. BUDGET	FINAL BUDGET	FINAL BUDGET
<b>Total Revenue</b>	<b>7 591 372 929</b>	<b>7 617 744 729</b>	<b>10 971 598</b>	<b>7 628 716 327</b>	<b>7 918 910 448</b>	<b>8 519 942 556</b>
<b>Total Operating Expenditure Excluding Operating Projects</b>	<b>7 205 610 772</b>	<b>7 205 610 772</b>	<b>344 185 981</b>	<b>7 549 796 753</b>	<b>7 625 289 187</b>	<b>8 217 549 708</b>
<b>Operating Projects</b>	<b>385 163 486</b>	<b>411 535 286</b>	<b>10 971 598</b>	<b>422 506 884</b>	<b>291 646 916</b>	<b>301 601 357</b>
<b>Total Operating Expenditure Including Operating Projects</b>	<b>7 590 774 258</b>	<b>7 617 146 058</b>	<b>355 157 579</b>	<b>7 972 303 637</b>	<b>7 916 936 103</b>	<b>8 519 151 065</b>
<b>Surplus / (Deficit)</b>	<b>598 671</b>	<b>598 671</b>	<b>(344 185 981)</b>	<b>(343 587 310)</b>	<b>1 974 345</b>	<b>791 491</b>
<b>Total Capital Expenditure</b>	<b>2 033 240 740</b>	<b>2 206 868 940</b>	<b>(19 101 598)</b>	<b>2 187 767 342</b>	<b>1 718 945 046</b>	<b>1 610 757 492</b>
<b>Total Opex and Capex Budget</b>	<b>9 624 014 998</b>	<b>9 824 014 998</b>	<b>336 055 981</b>	<b>10 160 070 979</b>	<b>9 635 881 149</b>	<b>10 129 908 557</b>

B. The following table provides a high-level summary of the Consolidated Operating and Capital Budget Adjustments:

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021	2020/2021	ADJUST.	2020/2021	2021/2022	2022/2023
	MID-YEAR ADJ. BUDGET	FOURTH ADJ. BUDGET		FIFTH ADJ. BUDGET	FINAL BUDGET	FINAL BUDGET
<b>Total Revenue</b>	<b>7 725 507 557</b>	<b>7 772 441 207</b>	<b>10 971 598</b>	<b>7 783 412 805</b>	<b>8 095 037 320</b>	<b>8 680 319 682</b>
<b>Total Operating Expenditure Excluding Operating Projects</b>	<b>7 339 745 079</b>	<b>7 360 306 929</b>	<b>344 185 981</b>	<b>7 704 492 910</b>	<b>7 801 415 366</b>	<b>8 377 926 838</b>
<b>Operating Projects</b>	<b>385 163 486</b>	<b>411 535 286</b>	<b>10 971 598</b>	<b>422 506 884</b>	<b>291 646 916</b>	<b>301 601 357</b>
<b>Total Operating Expenditure Including Operating Projects</b>	<b>7 724 908 565</b>	<b>7 771 842 215</b>	<b>355 157 579</b>	<b>8 126 999 794</b>	<b>8 093 062 282</b>	<b>8 679 528 195</b>
<b>Surplus / (Deficit)</b>	<b>598 992</b>	<b>598 992</b>	<b>(344 185 981)</b>	<b>(343 586 989)</b>	<b>1 975 038</b>	<b>791 487</b>
<b>Total Capital Expenditure</b>	<b>2 035 750 740</b>	<b>2 208 847 049</b>	<b>(19 101 598)</b>	<b>2 189 745 451</b>	<b>1 721 705 566</b>	<b>1 614 507 492</b>
<b>Total Opex and Capex Budget</b>	<b>9 760 659 305</b>	<b>9 980 689 264</b>	<b>336 055 981</b>	<b>10 316 745 245</b>	<b>9 814 767 848</b>	<b>10 294 035 687</b>

Further details on exposition of facts are detailed below for the Consolidated adjustments in the prescribed format.

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## ABBREVIATIONS AND ACRONYMS

AMR	Automated Meter Reading	EU	European Union
ASGISA	Accelerated and Shared Growth Initiative South Africa	ELIDZ	East London Industrial Development Zone
BCMM	Buffalo City Metropolitan Municipality	FBS	Free Basic Services
BCMDA	Buffalo City Development Agency	FMG	Finance Management Grant
BEPP	Built Environment Performance Plan	GAMAP	Generally Accepted Municipal Accounting Practice
BSC	Budget Steering Committee	GDP	Gross Domestic Product
CBD	Central Business District	GFS	Government Financial Statistics
CFO	Chief Financial Officer	GRAP	Generally Recognized Accounting Practice
CM	City Manager	HR	Human Resources
CoGTA	Cooperative Government & Traditional Affairs	HSDG	Human Settlement Development Grant
CPI	Consumer Price Index	HSRC	Human Science Research Council
CRRF	Capital Replacement Reserve Fund	ICDG	Integrated City Development Grant
DBSA	Development Bank South Africa	IDP	Integrated Development Plan
DEDEAT	Department of Economic Development, Environmental Affairs and Tourism	INEP	Integrated National Electrification Programme
DoRA	Division of Revenue Act	IT	Information Technology
DRDLR	Department of Rural Development and Land Reform	ISUPG	Informal Settlements Upgrading Partnership Grant
DTI	Department of Trade & Industry	KPI	Key Performance Indicator
DWA	Department of Water Affairs	kℓ	Kilolitre
ECDC	Easter Cape Development Corporation	KFA	Key Focus Area
EE	Employment Equity	Km	Kilometre
EEDSM	Energy Efficiency Demand Side Management	KPA	Key Performance Area

EM	Executive Mayor	kWh	Kilowatt hour
EPWP	Expanded Public Works Programme	ℓ	Litre
ECPTA	Eastern Cape Parks & Tourism	LED	Local Economic Development
MBRR	Municipal Budgeting and Reporting Regulations	PPP	Public Private Partnership
MDGS	Metro Growth and Development Strategy	PT	Provincial Treasury
MEC	Member of the Executive Committee	PMS	Performance Management System
MFMA	Municipal Finance Management Act	PTIS	Public Transport Infrastructure System
MIG	Municipal Infrastructure Grant	SALGA	South African Local Government Association
MMC	Member of Mayoral Committee	SAT	South African Tourism
MPRA	Municipal Property Rates Act	SDBIP	Service Delivery Budget Implementation Plan
MSA	Municipal Systems Act	SDF	Spatial Development Framework
MTEF	Medium-term Expenditure Framework	SMME	Small Micro and Medium Enterprises
MTREF	Medium-term Revenue and Expenditure Framework	TRAs	Temporary Relocation Areas
NDPG	Neighbourhood Development Partnership Grant	UK	United Kingdom
NERSA	National Electricity Regulator South Africa	US	United States
NGO	Non-Governmental Organisations	USDG	Urban Settlement Development Grant
NKPIs	National Key Performance Indicators	VAT	Value Added Tax
NT	National Treasury	WSA	Waster Services Authority
OP	Operational Plan	WSDP	Water Services Development Plan
PPE	Property, Plant and Equipment		



## PART 1 – ADJUSTMENT BUDGET

### 5.1 EXECUTIVE MAYOR’S REPORT

The 2020/2021 fifth adjustment emanates from the re-alignment of budgetary provision (funding sources, transfers, misallocations and reallocation between votes), which could not be foreseen during the financial year. This adjustment budget also seeks to address the unauthorised expenditure that has been identified, through re-allocation of funds from where there are savings to overspent votes.

The following table provides a high-level summary of the Operating and Capital Budget adjustments:

**Table 1: High Level Summary of Consolidated Operating and Capital Budget Adjustments**

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021 MID-YEAR ADJ. BUDGET	2020/2021 FOURTH ADJ. BUDGET	ADJUST.	2020/2021 FIFTH ADJ. BUDGET	2021/2022 FINAL BUDGET	2022/2023 FINAL BUDGET
<b>Total Revenue</b>	<b>7 725 507 557</b>	<b>7 772 441 207</b>	<b>10 971 598</b>	<b>7 783 412 805</b>	<b>8 095 037 320</b>	<b>8 680 319 682</b>
<b>Total Operating Expenditure</b>	<b>7 724 908 565</b>	<b>7 771 842 215</b>	<b>355 157 579</b>	<b>8 126 999 794</b>	<b>8 093 062 282</b>	<b>8 679 528 195</b>
<b>Surplus / (Deficit)</b>	<b>598 992</b>	<b>598 992</b>	<b>(344 185 981)</b>	<b>(343 586 989)</b>	<b>1 975 038</b>	<b>791 487</b>
<b>Total Capital Expenditure</b>	<b>2 035 750 740</b>	<b>2 208 847 049</b>	<b>(19 101 598)</b>	<b>2 189 745 451</b>	<b>1 721 705 566</b>	<b>1 614 507 492</b>
<b>Total Opex and Capex Budget</b>	<b>9 760 659 305</b>	<b>9 980 689 264</b>	<b>336 055 981</b>	<b>10 316 745 245</b>	<b>9 814 767 848</b>	<b>10 294 035 687</b>

## 5.2 COUNCIL RESOLUTIONS

On 29 June 2020 the Council of Buffalo City Metropolitan Municipality met to consider, approve and adopt the 2020/21 – 2022/23 MTREF Budget. The Council met on 28 August 2020 to consider and approve the roll-over adjustment budget. The Council further met on 11 December 2020 to consider and approve the conditional grants roll-over adjustment budget. On 24 February 2021, BCMM Council met to consider the 2020/2021 mid-year adjustment budget. On 18 May 2021 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 2020/2021 Fifth Adjustment Budget as follows:
  - i. The adjustment from R7 617 744 729 to R7 628 716 327 of the BCMM 2020/2021 Operating Revenue Budget.
  - ii. The adjustment from R7 617 146 058 to R7 972 303 637 of the BCMM 2020/2021 Operating Expenditure Budget.
  - iii. The adjustment from R2 206 868 940 to R2 187 767 342 of the BCMM 2020/2021 Capital Budget.
  
- B. The consolidated adjusted budget for the 2020/2021 Fifth Adjustment Budget as follows:
  - i. The adjustment from R7 772 441 207 to R7 783 412 805 of the consolidated 2020/21 Operating Revenue Budget.
  - ii. The adjustment from R7 771 842 215 to R8 126 999 794 of the consolidated 2020/2021 Operating Expenditure Budget.

- iii. The adjustment from R2 208 847 049 to R2 189 745 451 of the consolidated 2020/2021 Capital Budget.



PAKATI

**X. A. PAKATI**  
**EXECUTIVE MAYOR**

13/08/2021

**DATE**

### 5.3 EXECUTIVE SUMMARY

BCMM continues to take a more conservative approach in the manner in which it approaches the budgeting including this fifth adjustment budget. The 2020/2021 fifth adjustment emanates from the re-alignment of budgetary provision (funding sources, transfers, misallocations and reallocation between votes), which could not be foreseen during the financial year. This process also assists in improving the City's expenditure performance.

The operating revenue budget has increased by R10 971 598 from R7 772 441 207 to R7 783 412 805 (refer to section 5.4 below for details). The operating expenditure budget has also increased by R355 157 579 from R7 771 842 215 to R8 126 999 794 (refer to section 5.5 below for details). The capital budget has reduced by R19 101 598 from R2 208 847 049 to R2 189 745 451 (refer to section 5.6 below for details).

#### 5.3.1 Budget Adjustment Summary

The main reason for this adjustment budget is to effect realignments and misallocations in the 2020/2021 annual budget. The table below indicates the summary of the 2020/2021 fifth adjustment budget.

**Table 2: 2020/2021 Consolidated Fifth Adjustment Budget Summary**

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021 MID-YEAR ADJ. BUDGET	2020/2021 FOURTH ADJ. BUDGET	ADJUST.	2020/2021 FIFTH ADJ. BUDGET	2021/2022 FINAL BUDGET	2022/2023 FINAL BUDGET
Total Revenue	7 725 507 557	7 772 441 207	10 971 598	7 783 412 805	8 095 037 320	8 680 319 682
Total Operating Expenditure Excluding Operating Projects	7 339 745 079	7 360 306 929	344 185 981	7 704 492 910	7 801 415 366	8 377 926 838
Operating Projects	385 163 486	411 535 286	10 971 598	422 506 884	291 646 916	301 601 357
Total Operating Expenditure Including Operating Projects	7 724 908 565	7 771 842 215	355 157 579	8 126 999 794	8 093 062 282	8 679 528 195
Surplus / (Deficit)	598 992	598 992	(344 185 981)	(343 586 989)	1 975 038	791 487
Total Capital Expenditure	2 035 750 740	2 208 847 049	(19 101 598)	2 189 745 451	1 721 705 566	1 614 507 492
Total Opex and Capex Budget	9 760 659 305	9 980 689 264	336 055 981	10 316 745 245	9 814 767 848	10 294 035 687

#### 5.4 OPERATING REVENUE FRAMEWORK

The following table (table 3) depicts an adjustment to the operating revenue budget per source. The increase in the budget for operating revenue of R10 971 598 is resulting from mostly the re-allocation of grant funding from Capital projects to Operating projects. This amount is made up of the following adjustments:

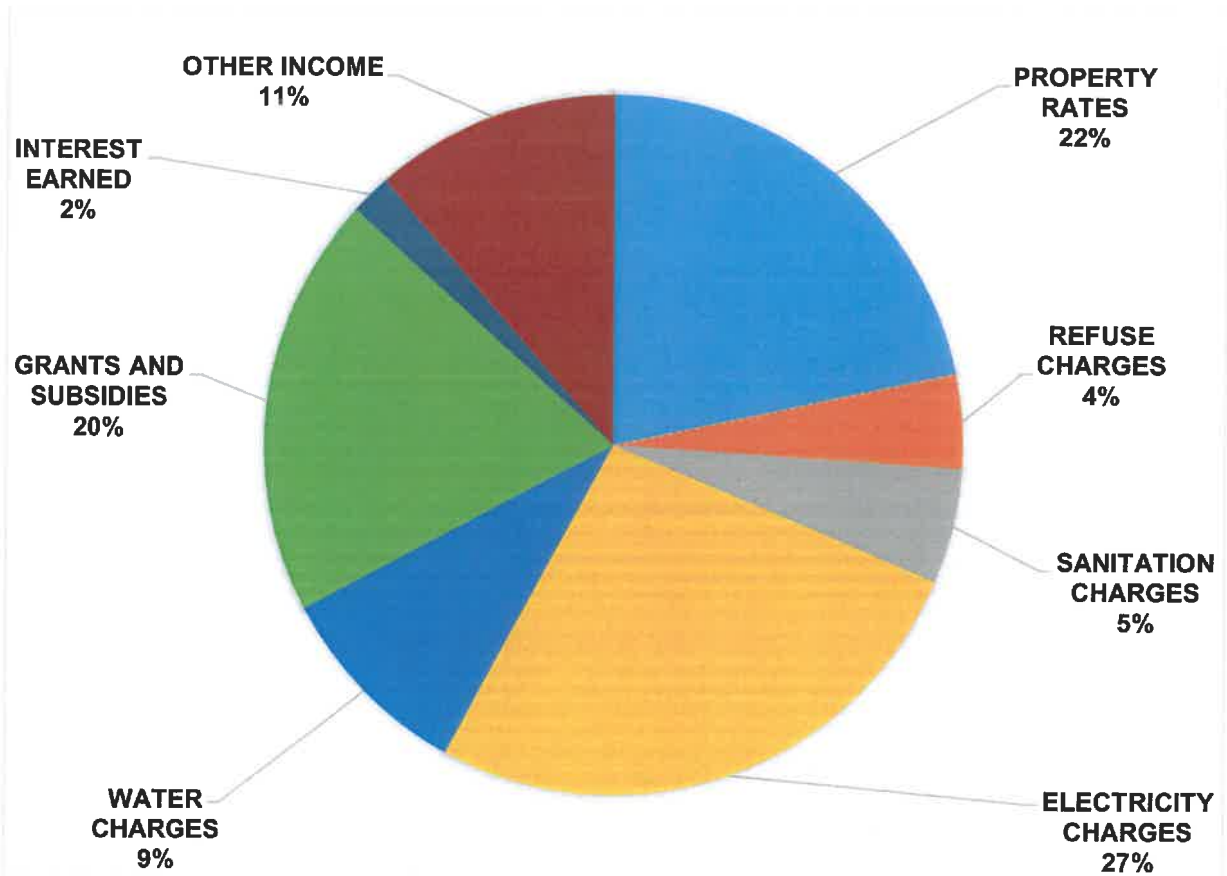
- a) A decrease by R197 076 in Public Transport Network Grant transferred from Operating project to Capital project – (Spatial Planning Development).
- b) An increase by R11 298 674 in Urban Settlement Development Grant transferred from Capital projects:
  - i. An amount of R 11 149 364 to Infrastructure Services
  - ii. An amount of R 149 310 to City Manager’s Office (EPMO)
- c) A reduction of R130 000 in Infrastructure Skills Development Grant due to the revised allocation by National Treasury – (Corporate Services).

**Table 3: 2020/2021 Fifth Adjusted Revenue per Source**

2020/2021 FIFTH ADJUSTMENT BUDGET REVENUE FRAMEWORK	2020/2021 MID-YEAR ADJUSTMENT BUDGET	2020/2021 FOURTH ADJUSTMENT BUDGET	ADJUST.	2020/2021 FIFTH ADJUSTMENT BUDGET
<b>Revenue by Source</b>				
Property rates	1 687 667 431	1 687 667 431	0	1 687 667 431
Service charges - electricity revenue	2 066 209 246	2 066 209 246	0	2 066 209 246
Service charges - water revenue	729 338 211	729 338 211	0	729 338 211
Service charges - sanitation revenue	412 037 055	412 037 055	0	412 037 055
Service charges - refuse revenue	339 127 904	339 127 904	0	339 127 904
Rental of facilities and equipment	19 299 414	19 299 414	0	19 299 414
Interest earned - external investments	46 472 852	46 102 210	0	46 102 210
Interest earned - outstanding debtors	101 008 891	101 008 891	0	101 008 891
Fines, penalties and forfeits	19 712 140	19 712 140	0	19 712 140
Licences and permits	17 343 113	17 343 113	0	17 343 113
Agency services	43 909 004	43 903 113	0	43 903 113
Transfers and subsidies - Operating	1 448 934 454	1 504 293 849	10 971 598	1 515 265 447
Other revenue	794 447 842	786 398 630	0	786 398 630
<b>Total Direct Operating Revenue</b>	<b>7 725 507 557</b>	<b>7 772 441 207</b>	<b>10 971 598</b>	<b>7 783 412 805</b>

The pie chart (figure 1) below depicts operating revenue budget per source. In terms of service revenue, electricity continues to be the main contributor to the revenue of the municipality by generating 27% of the total revenue. This is followed by water tariffs at 9%, sanitation tariff at 5% and refuse tariff at 4%. Property rates revenue totals 22% of the total Municipal revenue. The municipality receives grants and subsidies totalling 20% of the total revenue, interest earned is 2% of the total revenue. Other revenue contributes 11% of the total revenue.

**Figure 1: 2020/2021 Operating Revenue per Source**



## 5.5 OPERATING EXPENDITURE FRAMEWORK

The following table (table 4) details adjustments to the operating expenditure budget per category. The net increase in the budget for operating expenditure of R355 157 579 is resulting from the re-allocation of grant funding from Capital Projects to Operating projects as well as re-allocation of funding between expenditure types. The adjustments are necessary to reduce / eliminate unauthorised expenditure as well as to improve efficiency.

**Table 4: 2020/2021 Fifth Adjusted Expenditure Budget per Category**

2020/2021 FIFTH ADJUSTMENT BUDGET EXPENDITURE FRAMEWORK	2020/2021 MID-YEAR ADJUSTMENT BUDGET	2020/2021 FOURTH ADJUSTMENT BUDGET	ADJUST.	2020/2021 FIFTH ADJUSTMENT BUDGET
<b>Expenditure Per Category</b>				
Employee related costs	2 396 514 302	2 397 684 315	65 820 554	2 463 504 869
Remuneration of councillors	72 765 784	72 765 784	(8 950 000)	63 815 784
Debt impairment	497 285 620	497 285 620	467 817 168	965 102 788
Depreciation & asset impairment	896 757 069	896 215 348	(14 566 204)	881 649 144
Finance charges	44 211 169	44 211 229	(18 441 000)	25 770 229
Electricity Bulk Purchases	1 754 307 226	1 754 307 226	(121 783 337)	1 632 523 889
Contracted services	251 506 906	292 323 103	(50 420 051)	241 903 052
Transfers and grants	76 930 515	77 004 973	(3 642 315)	73 362 658
Repairs and Maintenance	412 159 640	407 639 435	(22 176 932)	385 462 503
Operating projects	385 163 486	411 535 286	10 971 598	422 506 884
Other expenditure	516 153 332	499 948 490	38 796 900	538 745 390
Other materials	421 153 516	420 921 406	(9 446 906)	411 474 500
Losses	0	0	21 178 104	21 178 104
<b>Total Direct Operating Expenditure</b>	<b>7 724 908 565</b>	<b>7 771 842 215</b>	<b>355 157 579</b>	<b>8 126 999 794</b>

### **A NET INCREASE OF R355 157 579 IS DUE TO THE FOLLOWING ADJUSTMENTS:**

1. The grant adjustments/ reallocations made on operating projects have resulted in an increase amounting to R 10 971 598:
  - a) Public Transport Network Grant amounting to R197 076 is being reallocated from Operating to Capital projects in order to improve efficiency.
  - b) Urban Settlement Development Grant amounting to R11 298 674 is being reallocated from Capital to Operating projects in order to improve operational efficiency.

- c) A reduction of R 130 000 in Infrastructure Skills Development Grant due to the revised grant allocation by National Treasury.
2. Re-allocation of R249 426 745 savings from the expenditure types listed below:
- a) A decrease of R8 950 000 to Remuneration of councillors.
  - b) A decrease of R14 566 204 to Depreciation & asset impairment.
  - c) A decrease of R18 441 000 to Finance charges.
  - d) A decrease of R121 783 337 to Electricity bulk purchases.
  - e) A decrease of R50 420 051 to Contracted services.
  - f) A decrease of R3 642 315 to Transfers and grants.
  - g) A decrease of R22 176 932 to Repairs & maintenance.
  - h) A decrease of R9 446 906 to Other materials.
3. Re-allocation of R249 426 745 from the above-mentioned expenditure types to the following:
- a) An increase of R65 820 554 to Employee related costs as a result of a post retirement benefit annual calculation that is done at the end of the financial year. The 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) An increase of R38 796 900 to Other expenditure in order to improve operational efficiency in mainly the below items:
    - i. Advertising and marketing costs.
    - ii. Commission
    - iii. Water Resource Management charges
    - iv. Hire Charges (Plant Hire)
  - c) An increase of R21 178 104 to Losses. This results from the following:
    - i. Derecognition of the old Water World structure to make way for the new structure that's being implemented by BCMDA.
    - ii. Derecognition of electrical infrastructure.
    - iii. Disposal of vehicles, plant & equipment and office equipment.

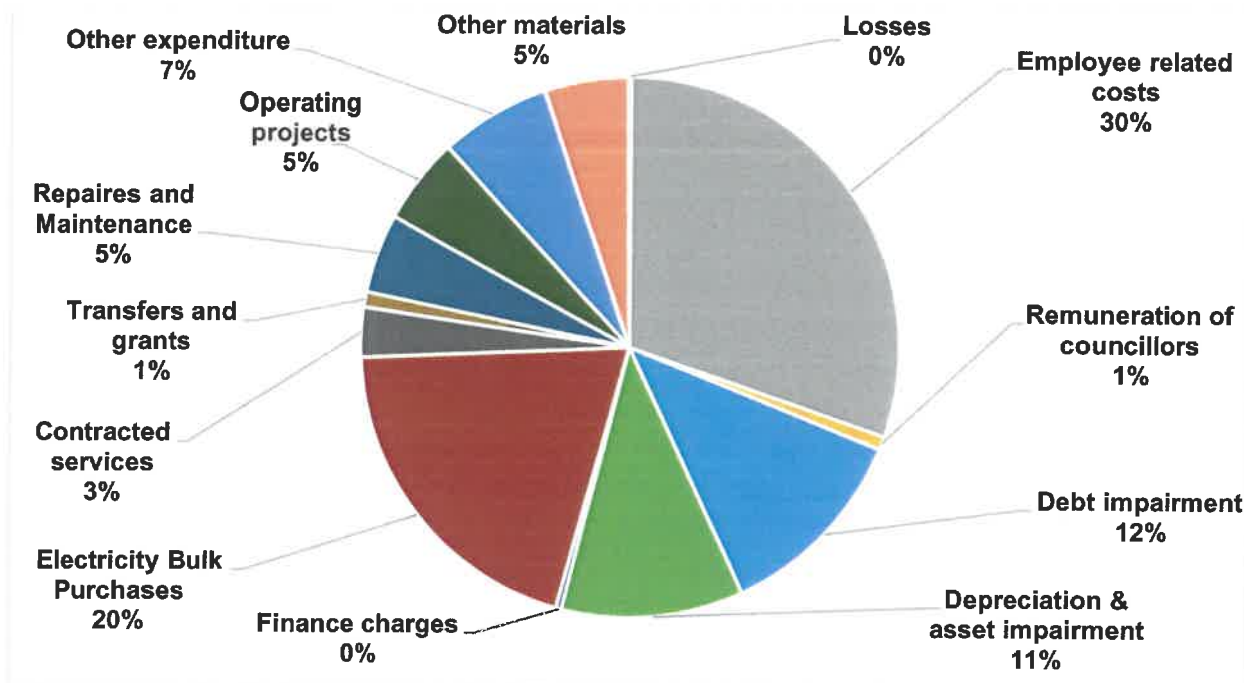


d) An increase of R123 631 187 to Debt impairment as more debt impairment was incurred than originally projected. This is a result of decrease in collection rate. The negative impact of COVID-19 to the economic climate is having negative effect to the financial situation of the City and the ability of its customers to pay its debt.

4. There have been insufficient savings to fund the full shortfall that is in the Debt impairment as a result an amount of R344 185 981 could not be funded through reallocations but through a budget increase and thus resulting into a deficit of the same amount. The debt impairment has been increased by a total amount of R467 817 168.

The pie chart (figure 2) below depicts split of operating expenditure budget per category. Employee Costs and Electricity Bulk Purchases represent the largest cost of the municipality at 30% and 20% of the total operating expenditure respectively. Depreciation totals 11% of the total cost base for the institution. This represents the proportional funding requirements for the replacement of existing infrastructure assets. General Expenses/Other Expenditure account is 7% of the total operating budget. Operating Projects, Repairs and Maintenance and Other Materials each account for 5% of the total operating budget. Contracted Services equal to 3% of the total operating expenditure budget. Debt Impairment accounts for 12% for the total operating budget. Remuneration of Councillors, Finance Charges, Transfers and Grants and Losses combined account for 1%.

**Figure 2: 2020/2021 Operating Expenditure per Type**



#### 5.5.1 Fourth Budget Adjustment on Operating Projects

The following tables (table 5 and 6) tabulate adjustments to the operating projects expenditure budget per funding source and per directorate respectively.

**Table 5: 2020/2021 Fifth Adjustments to Operating Projects - Funding Source**

FUNDING SOURCE	2020/2021 MID-YEAR ADJUSTMENT BUDGET	2020/2021 FOURTH ADJUSTMENT BUDGET	ADJUST.	2020/2021 FIFTH ADJUSTMENT BUDGET
OWN FUNDING	133 288 387	133 288 387	0	133 288 387
<b>TOTAL OWN FUNDING</b>	<b>133 288 387</b>	<b>133 288 387</b>	<b>0</b>	<b>133 288 387</b>
URBAN SETTLEMENT DEVELOPMENT GRANT	70 463 630	96 835 430	11 298 674	108 134 104
PUBLIC TRANSPORT NETWORK GRANT C/O	1 083 420	1 083 420	(197 076)	886 344
FINANCE MANAGEMENT GRANT	1 000 000	1 000 000	0	1 000 000
INFRASTRUCTURE SKILLS DEVELOPMENT GRANT	10 788 000	10 788 000	(130 000)	10 658 000
INTEGRATED CITY DEVELOPMENT GRANT	6 180 335	6 180 335	0	6 180 335
EXPANDED PUBLIC WORKS PROGRAMME	8 449 000	8 449 000	0	8 449 000
HUMAN SETTLEMENTS DEVELOPMENT GRANT	81 276 351	81 276 351	0	81 276 351
<b>TOTAL GRANTS</b>	<b>251 875 099</b>	<b>278 246 899</b>	<b>10 971 598</b>	<b>289 218 497</b>
<b>TOTAL OPERATING PROJECTS BUDGET</b>	<b>385 163 486</b>	<b>411 535 286</b>	<b>10 971 598</b>	<b>422 506 884</b>

**Table 6: 2020/2021 Fifth Adjustments to Operating Projects – Directorate**

<b>FUNDING SOURCE</b>	<b>2020/2021 MID-YEAR ADJUSTMENT BUDGET</b>	<b>2020/2021 FOURTH ADJUSTMENT BUDGET</b>	<b>ADJUST.</b>	<b>2020/2021 FIFTH ADJUSTMENT BUDGET</b>
EXECUTIVE SUPPORT SERVICES	53 822 313	53 822 313	0	53 822 313
CITY MANAGER'S OFFICE	55 434 430	55 434 430	1 620 575	57 055 005
CORPORATE SERVICES	22 547 237	22 547 237	(130 000)	22 417 237
SPATIAL PLANNING & DEVELOPMENT	7 394 125	7 394 125	(197 076)	7 197 049
ECONOMIC DEVELOPMENT & AGENCIES	6 150 000	6 150 000	0	6 150 000
FINANCE SERVICES	24 868 316	24 868 316	(3 776 244)	21 092 072
HEALTH/PUBLIC SAFETY & EMERGENCY SERVICES	1 574 413	1 574 413	(1 000 000)	574 413
HUMAN SETTLEMENTS	154 088 401	156 088 401	(1 471 265)	154 617 136
INFRASTRUCTURE SERVICES	53 284 251	77 656 051	11 050 488	88 706 539
MUNICIPAL SERVICES	6 000 000	6 000 000	4 875 120	10 875 120
<b>TOTAL OPERATING PROJECTS BUDGET</b>	<b>385 163 486</b>	<b>411 535 286</b>	<b>10 971 598</b>	<b>422 506 884</b>

**The adjustments show a total net increase of R10 971 598 resulting from the following grants:**

1. Public Transport Network Grant amounting to R197 076 is being re-allocated from Operating project to Capital project.
2. Urban Settlement Development Grant amounting to R11 298 674 is being re-allocated from Capital to Operating projects in order to improve efficiency.
3. A reduction of R130 000 in Infrastructure Skills Development Grant due to the revised grant allocation by National Treasury.
4. Re-allocations have also been done between directorates to improve overall performance within operating projects on Own funding & USDG.

## 5.6 CAPITAL EXPENDITURE FRAMEWORK

The tables (table 7 and 8) below indicate adjustments to the capital expenditure budget per funding source and per directorate respectively.

**Table 7: 2020/2021 Fifth Adjustments to Capital Expenditure Budget – Funding**

CAPITAL BUDGET PER FUNDING	2020/2021 MID-YEAR ADJUSTMENT BUDGET	2020/2021 FOURTH ADJUSTMENT BUDGET	ADJUST.	2020/2021 FIFTH ADJUSTMENT BUDGET
OWN FUNDING	1 091 720 739	1 091 188 848	0	1 091 188 848
<b>TOTAL OWN FUNDING</b>	<b>1 091 720 739</b>	<b>1 091 188 848</b>	<b>0</b>	<b>1 091 188 848</b>
URBAN SETTLEMENT DEVELOPMENT GRANT	616 657 370	790 285 570	(11 298 674)	778 986 896
URBAN SETTLEMENT DEVELOPMENT GRANT C/O	223 055 535	223 055 535	0	223 055 535
BCMET c/o	541 862	541 862	0	541 862
PUBLIC TRANSPORT NETWORK GRANT C/O	77 287 570	77 287 570	197 076	77 484 646
INTERGRATED CITY DEVELOPMENT GRANT	2 037 665	2 037 665	0	2 037 665
ENERGY EFFICIENCY DEMAND SIDE MANAGEMENT GRANT	6 300 000	6 300 000	0	6 300 000
NEIGHBOURHOOD DEVELOPMENT PARTNERSHIP GRANT	18 000 000	18 000 000	(8 000 000)	10 000 000
INFRASTRUCTURE SKILLS DEVELOPMENT GRANT	150 000	150 000	0	150 000
<b>TOTAL GRANTS</b>	<b>944 030 002</b>	<b>1 117 658 202</b>	<b>(19 101 598)</b>	<b>1 098 556 604</b>
<b>TOTAL CAPITAL BUDGET: CONSOLIDATED</b>	<b>2 035 750 741</b>	<b>2 208 847 050</b>	<b>(19 101 598)</b>	<b>2 189 745 452</b>

**Table 8: 2020/2021 Fifth Adjustments to Capital Expenditure Budget - Directorate**

CAPITAL BUDGET PER DIRECTORATE	2020/2021 MID-YEAR ADJUSTMENT BUDGET	2020/2021 FOURTH ADJUSTMENT BUDGET	ADJUST.	2020/2021 FIFTH ADJUSTMENT BUDGET
EXECUTIVE SUPPORT SERVICES	3 061 406	3 061 406	0	3 061 406
CITY MANAGER'S OFFICE	5 669 366	5 669 366	(150 000)	5 519 366
CORPORATE SERVICES	19 474 583	19 474 583	0	19 474 583
SPATIAL PLANNING & DEVELOPMENT	168 685 071	178 313 271	1 576 916	179 890 187
ECONOMIC DEVELOPMENT & AGENCIES	61 856 077	71 856 077	1 887 338	73 743 415
FINANCE SERVICES	145 680 215	145 680 215	0	145 680 215
HEALTH/PUBLIC SAFETY & EMERGENCY SERVICES	40 472 581	40 472 581	0	40 472 581
HUMAN SETTLEMENTS	429 078 763	478 078 763	237 127	478 315 890
INFRASTRUCTURE SERVICES	952 252 718	1 057 252 718	(22 650 041)	1 034 602 677
MUNICIPAL SERVICES	113 074 562	113 074 562	(2 938)	113 071 624
<b>TOTAL CAPITAL BUDGET: BCMM</b>	<b>1 939 305 342</b>	<b>2 112 933 542</b>	<b>(19 101 598)</b>	<b>2 093 831 944</b>
BCMDA	96 445 399	95 913 508	0	95 913 508
<b>TOTAL CAPITAL: CONSOLIDATED</b>	<b>2 035 750 741</b>	<b>2 208 847 050</b>	<b>(19 101 598)</b>	<b>2 189 745 452</b>

**The adjustments reflect a net decrease of R19 101 598 which is made up of the following:**

1. An additional Public Transport Network Grant transferred from Operating projects to Capital – R197 076.
2. A decrease of R11 298 674 of Urban Settlement Development Grant, this is transferred from Capital to operating projects.
3. A reduction in the Neighbourhood Development Partnership Grant by R8 000 000. The amount transferred by the transferring department is lesser than the gazetted amount.

Various adjustments as detailed in table 8 above were made between directorates within same funding sources in order to improve overall performance within capital projects.

Detailed schedule of capital projects is attached as Annexure 2.

## **PART 2 – SUPPORTING DOCUMENTATION**

### **6. 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 new allocations or grants made by the municipality.

#### **6.3. ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN**

Section 54 (1) of the MFMA 56 of 2003 states: On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must –

*(c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget.*

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

### **7. CHALLENGES**

None.

### **8. STAFF IMPLICATIONS**

The adjustment budget is linked to the Performance Plans of Head of Departments and are therefore responsible to spend the revised budget.

## **9. FINANCIAL IMPLICATIONS**

The 2020/2021 Fifth Adjustment Budget does not have an impact on tariffs as these are funded from current operating revenue that was already approved by Council, conditional grants and own funding reserves. The effects of the adjustments to the 2020/2021 Capital and Operating Budget are outlined below:

- A. The adjusted budget of the Parent municipality (BCMM) for the 2020/2021 Fifth Adjustment Budget as follows:
  - iv. The adjustment from R7 617 744 729 to R7 628 716 327 of the BCMM 2020/2021 Operating Revenue Budget.
  - v. The adjustment from R7 617 146 058 to R7 972 303 637 of the BCMM 2020/2021 Operating Expenditure Budget.
  - vi. The adjustment from R2 206 868 940 to R2 187 767 342 of the BCMM 2020/2021 Capital Budget.
  
- B. The consolidated adjusted budget for the 2020/2021 Fifth Adjustment Budget as follows:
  - iv. The adjustment from R7 772 441 207 to R7 783 412 805 of the consolidated 2020/21 Operating Revenue Budget.
  - v. The adjustment from R7 771 842 215 to R8 126 999 794 of the consolidated 2020/2021 Operating Expenditure Budget.
  - vi. The adjustment from R2 208 847 049 to R2 189 745 451 of the consolidated 2020/2021 Capital Budget.

## **10. OTHER PARTIES CONSULTED**

All Directorates.

**11. 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 adjusted 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 13.08.2021



**ANNEXURES:**

Annexure 1: Schedule of Operating Projects per Programme/Project

Annexure 1.1: Detailed Schedule of Operating Projects

Annexure 2: Schedule of Capital Projects per Programme/Project

Annexure 2.1: Detailed Schedule of Capital Projects

Annexure 3: National Treasury B Schedules (Parent Municipality)

Annexure 4: National Treasury B Schedules (Consolidated)