

REPORT TO COUNCIL: 24 FEBRUARY 2021

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2020/2021 MID-YEAR ADJUSTMENTS BUDGET REPORT

1. PURPOSE

The purpose of the report is for the Council to **consider** and **approve** the Mid-Year Adjustments Budget of Buffalo City Metropolitan Municipality for the 2020/21 financial year in terms of section 28 of the MFMA.

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

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.”*

According to the Municipal Budget and Reporting Regulations (MBRR), 2009, (Reg. 23)

“(1) an adjustments budget referred to in Section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.”

“An adjustment budget and supporting documentation of a 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).

In terms of Section 54(1) on receipt of a statement or report submitted by the Accounting Officer of the municipality and 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 the revision 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 adjustment.”

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

5. EXPOSITION OF FACTS

The mid-year adjustments budget is being prepared as informed by the Mid-Year Budget and Performance Assessment and certain adjustments have been identified in terms of Section 28(2) of the MFMA. The Mid-Year Budget and Performance Assessment was tabled at Council on 27 January 2021. The main reason for this adjustment budget is the revision and re-allocation of budget between capital and operating budget, votes, expenditure categories and revenue sources in order to improve operational efficiencies and service delivery.

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 APPROVED BUDGET	2020/2021 FIRST ADJ. BUDGET	2020/2021 SECOND ADJ. BUDGET	ADJUSTMENTS	2020/2021 MID-YEAR ADJ. BUDGET	2021/2022 FINAL BUDGET	2022/2023 FINAL BUDGET
Total Revenue	7.373.417.012	7.590.388.509	7.591.471.929	-99.000	7.591.372.929	7.918.910.448	8.519.942.500
Total Operating Expenditure Excluding Operating Projects	7.081.267.238	7.213.080.001	7.213.080.001	-7.469.229	7.205.610.772	7.625.289.187	8.217.549.700
Operating Projects	291.551.103	376.709.837	377.793.257	7.370.229	385.163.486	291.646.916	301.601.300
Total Operating Expenditure Including Operating Projects	7.372.818.341	7.589.789.838	7.590.873.258	-99.000	7.590.774.258	7.916.936.103	8.519.151.000
Surplus / (Deficit)	598.671	598.671	598.671	0	598.671	1.974.345	791.400
Total Capital Expenditure	1.657.728.597	1.822.653.600	2.036.996.705	-3.755.964	2.033.240.741	1.718.945.046	1.610.757.400
Total Opex and Capex Budget	9.030.546.938	9.412.443.438	9.627.869.963	-3.854.964	9.624.014.999	9.635.881.149	10.129.908.500

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

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021 APPROVED BUDGET	2020/2021 FIRST ADJ. BUDGET	2020/2021 SECOND ADJ. BUDGET	ADJUSTMENTS	2020/2021 MID-YEAR ADJ. BUDGET	2021/2022 FINAL BUDGET	2022/2023 FINAL BUDGET
Total Revenue	7,507,551,640	7,724,523,137	7,725,606,557	-99,000	7,725,507,557	8,095,037,320	8,680,319,661
Total Operating Expenditure Excluding Operating Projects	7,215,401,545	7,347,214,308	7,347,214,308	-7,469,229	7,339,745,079	7,801,415,366	8,377,926,831
Operating Projects	291,551,103	376,709,837	377,793,257	7,370,229	385,163,486	291,646,916	301,601,331
Total Operating Expenditure Including Operating Projects	7,506,952,648	7,723,924,145	7,725,007,565	-99,000	7,724,908,565	8,093,062,282	8,679,528,162
Surplus / (Deficit)	598,992	598,992	598,992	0	598,992	1,975,038	791,468
Total Capital Expenditure	1,660,238,597	1,825,163,600	2,039,506,705	-3,755,964	2,035,750,741	1,721,705,566	1,614,507,491
			0				
Total Opex and Capex Budget	9,167,191,245	9,549,087,745	9,764,514,270	-3,854,964	9,760,659,306	9,814,767,848	10,294,035,653

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		

5.1 EXECUTIVE MAYOR'S REPORT

The 2020/2021 mid-year adjustments budget is being prepared as informed by the Mid-Year Budget and Performance Assessment and in terms of the MFMA and Municipal Budget and Reporting Regulations. The main reason for this adjustment budget is the revision and re-allocation of budget between capital and operating budget, votes, expenditure categories and revenue sources in order to improve operational efficiencies and service delivery. The following table provides a high-level summary of the Consolidated Operating and Capital Budget Adjustments:

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

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021 APPROVED BUDGET	2020/2021 SECOND ADJ. BUDGET	ADJUSTMENTS	2020/2021 MID-YEAR ADJ. BUDGET	2021/2022 FINAL BUDGET	2022/2023 FINAL BUDGET
Total Revenue	7.507.551.640	7.725.606.557	-99.000	7.725.507.557	8.095.037.320	8.680.319.682
Total Operating Expenditure	7.506.952.648	7.725.007.565	-99.000	7.724.908.565	8.093.062.282	8.679.528.195
Total Capital Expenditure	1.660.238.597	2.039.506.705	-3.755.964	2.035.750.741	1.721.705.566	1.614.507.492
Total Opex and Capex Budget	9.167.191.245	9.764.514.270	-3.854.964	9.760.659.306	9.814.767.848	10.294.035.687

The following factors were considered in the formulation of the mid-year adjustment budget:

- (a) Projected annual revenue for all revenue sources after taking into consideration the actual revenue realised in the mid-year.
- (b) Ability to improve revenue performance.
- (c) Identified potential savings versus additional budget requests received.
- (d) Adjustments between the different expenditure types as requested by directorates.
- (e) Adjustments between the different expenditure types for correct classification.
- (f) Continuous enforcement of cost containment measures.

(g) Potential to achieve the collection rate target of 90.5% (current as at 2020/21 mid-year 60.08% versus 85.71% as at 2019/20 mid-year).

(h) Funding availability and affordability.

(i) Status of implementation readiness for each project.

Therefore, the proposed adjustments are mainly re-allocations within and across directorates and expenditure types as well as revenue sources.

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. 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 Mid-Year Adjustment Budget as follows:
 - i. The adjustment from R7 591 471 929 to R7 591 372 929 of the BCMM 2020/21 Operating Revenue Budget.
 - ii. The adjustment from R7 590 873 258 to R7 590 774 258 of the BCMM 2020/21 Operating Expenditure Budget.
 - iii. The adjustment from R2 036 996 705 to R2 033 240 741 of the BCMM 2020/21 Capital Budget.

- B. The consolidated adjusted budget for the 2020/2021 Mid-Year Adjustment Budget as follows:
 - i. The adjustment from R7 725 606 557 to R7 725 507 557 of the consolidated 2020/21 Operating Revenue Budget.
 - ii. The adjustment from R7 725 007 565 to R7 724 908 565 of the consolidated 2020/21 Operating Expenditure Budget.
 - iii. The adjustment from R2 039 506 705 to R2 035 750 741 of the consolidated 2020/21 Capital Budget.

- C. Council **note** that, in order to improve operational efficiency, the consolidated detailed schedules of operating projects and capital projects that are attached as **Annexure 1 and 2** respectively have been rolled up to project and or

programme level to allow budget transfers between vote/account numbers that make up that particular project or programme to be managed at administrative level rather than being treated as a virement or an adjustment budget (Annexure 1.1 and 2.1 are provided for information only).



X. PAKATI

X. PAKATI

EXECUTIVE MAYOR

BUFFALO CITY METROPOLITAN MUNICIPALITY

ANDILE SIHLAHLA/ NS

12/02/2021

DATE

5.3 EXECUTIVE SUMMARY

The Buffalo City Metropolitan Municipality is still taking cognisance of the economic challenges that are experienced by South Africa including the devastating effects of the COVID-19 pandemic that are characterised by low economic growth, high unemployment rate, lower exports earnings, lower revenue, declining investment, job losses and business failures.

BCMM continues to take a more conservative approach in the manner in which it approaches the budgeting including this mid-year adjustment budget. This approach involved an intensive internal process of assessing and determining whether the budgeted programs and projects are responding to the City's strategic needs and priorities. This process further assessed the implementation readiness of the budgeted programs and projects and the re-allocation of the expenditure budget was informed by this assessment. The assessment also indicated low collection rate which requires close focus. The City is still committed to putting all necessary revenue collection measures to achieve the set target of 90.5%.

The debtor's collection rate for the period ended 31 December 2020 is 60.08% (2019/20: 85.71%). This indicator has decreased when compared to last financial year around the same period. The Revenue Management roll-out program is currently underway as an effort to address all billing related queries, account arrangements and indigent registration. The Debt Incentive Scheme has also been approved by Council and is currently being implemented. The full Credit Control Policy implementation will resume after 06 March 2021. All these efforts should assist the City to achieve the set target on collection rate.

The key liquidity financial indicators are currently deemed to be adequate at 2.05:1 as at 31 December 2020 and within the set norms. This ratio is indicating an improvement when compared to the previous year around the same period when it was 1.91:1.

The consolidated capital budget spending as at 31 December 2020 is 28% (R563.72 million, inclusive of reclaimed vat) of its 2020/21 adjusted capital budget of R2.04 billion. This reflects a slight decline when compared to the same period in the previous financial year where 30% (R592.54 million, inclusive of reclaimed vat) of the adjusted budget of R1.95 billion was spent. This is due to approved rollovers for conditional grants that were approved appropriation into the budget in the Council meeting of 11 December 2020.

Having assessed the consolidated mid-year performance of the City, the operating revenue budget has been reduced by R99 000 from R7 725 606 557 to R7 725 507 557. The operating expenditure budget has been reduced by the same amount (R99 000) from R7 725 007 565 to R7 724 908 565. These are detailed in section 5.4 and 5.5 of the report. The overall operating surplus before capital transfers recognised remains stagnant at R598 992.

The capital expenditure budget has been reduced by R3 755 964 from R2 039 506 705 to R2 035 750 741. This is detailed in section 5.6 of the report.

5.3.1 Budget Adjustment Summary

The main reason for this adjustment budget is the revision and the re-allocation of budget between capital and operating budget, votes, expenditure types, revenue sources to improve operational efficiencies and service delivery. The table below indicates the summary of the 2020/2021 Consolidated mid-year budget adjustments.

Table 2: 2020/2021 Consolidated Mid-Year Adjustment Budget Summary

OPERATING AND CAPITAL BUDGET EXPENDITURE	2020/2021 APPROVED BUDGET	2020/2021 FIRST ADJ. BUDGET	2020/2021 SECOND ADJ. BUDGET	ADJUST.	2020/2021 MID-YEAR ADJ. BUDGET	2021/2022 FINAL BUDGET	2022/2023 FINAL BUDGET
Total Revenue	7.507.551.640	7.724.523.137	7.725.606.557	-99.000	7.725.507.557	8.095.037.320	8.680.319.687
Total Operating Expenditure Excluding Operating Projects	7.215.401.545	7.347.214.308	7.347.214.308	-7.469.229	7.339.745.079	7.801.415.366	8.377.926.831
Operating Projects	291.551.103	376.709.837	377.793.257	7.370.229	385.163.486	291.646.916	301.601.357
Total Operating Expenditure Including Operating Projects	7.506.952.648	7.723.924.145	7.725.007.565	-99.000	7.724.908.565	8.093.062.282	8.679.528.191
Surplus / (Deficit)	598.992	598.992	598.992	0	598.992	1.975.038	791.487
Total Capital Expenditure	1.660.238.597	1.825.163.600	2.039.506.705	-3.755.964	2.035.750.741	1.721.705.566	1.614.507.497
			0				
Total Opex and Capex Budget	9.167.191.245	9.549.087.745	9.764.514.270	-3.854.964	9.760.659.306	9.814.767.848	10.294.035.687

5.4 OPERATING REVENUE FRAMEWORK

The following factors were taken into consideration in arriving to the proposed adjustments in the City's Revenue Framework:

- (a) Projected annual revenue for all revenue sources after taking into consideration the actual revenue realised in the mid-year.
- (b) Ability to improve revenue performance.
- (c) Potential to achieve the collection rate target of 90.5% (current as at 2020/21 mid-year 60.08% versus 85.71% as at 2019/20 mid-year).

The following table (Table 3) depicts adjustments to the consolidated operating revenue budget per source. Table 3 below reflects that there has been a decrease in revenue totalling to R99 000. The details of the revenue adjustments are reflected below table 3.

Table 3: 2020/21 Consolidated Mid-Year Adjusted Revenue per Source

2020/2021 ADJUSTMENT BUDGET REVENUE & EXPENDITURE FRAMEWORK	2020/2021 APPROVED OPEX BUDGET	2020/2021 FIRST ADJUSTMENT OPEX BUDGET	2020/2021 SECOND ADJUSTMENT OPEX BUDGET	ADJUSTMENTS	2020/2021 MID-YEAR ADJUSTMENT OPEX BUDGET
Revenue by Source					
Property rates	1.687.667.431	1.687.667.431	1.687.667.431	0	1.687.667.431
Service charges - electricity revenue	2.184.209.246	2.184.209.246	2.184.209.246	-118.000.000	2.066.209.246
Service charges - water revenue	631.338.211	631.338.211	631.338.211	98.000.000	729.338.211
Service charges - sanitation revenue	397.037.055	397.037.055	397.037.055	15.000.000	412.037.055
Service charges - refuse revenue	334.127.904	334.127.904	334.127.904	5.000.000	339.127.904
Rental of facilities and equipment	20.885.214	20.885.214	20.885.214	-1.585.800	19.299.414
Interest earned - external investments	54.472.852	54.472.852	54.472.852	-8.000.000	46.472.852
Interest earned - outstanding debtors	88.008.665	88.008.665	88.008.665	13.000.226	101.008.891
Fines, penalties and forfeits	19.712.140	19.712.140	19.712.140	0	19.712.140
Licences and permits	17.343.113	17.343.113	17.343.113	0	17.343.113
Agency services	43.909.004	43.909.004	43.909.004	0	43.909.004
Transfers and subsidies - Operating	1.230.978.537	1.447.950.034	1.449.033.454	-99.000	1.448.934.454
Other revenue	797.862.268	797.862.268	797.862.268	-3.414.426	794.447.842
Total Direct Operating Revenue	7.507.551.640	7.724.523.137	7.725.606.557	-99.000	7.725.507.557

Net downward adjustment amounting to R99 000, made up of:**(a) Service Charges:**

- **Electricity** - The mid-year performance illustrates that this revenue source has underperformed by 19%. This has resulted in the proposed downward adjustment of R118 000 000 on this revenue source.
- **Water** - This revenue source overperformed in the mid-year, as a result it is adjusted upwards by R98 000 000.
- **Sanitation** – This service has overperformed in the mid-year performance by 9%. This has resulted in an upward adjustment of R15 000 000.
- **Refuse** - This revenue source has overperformed in the mid-year performance by 5%. This has resulted in an upward adjustment of R5 000 000.

(b) Rental of Facilities & Equipment - Budget for bus private hire has been reduced by R1 585 800 to R30 000 due to the reduced fleet and impact of Covid-19 to this service.

(c) Interest Earned:

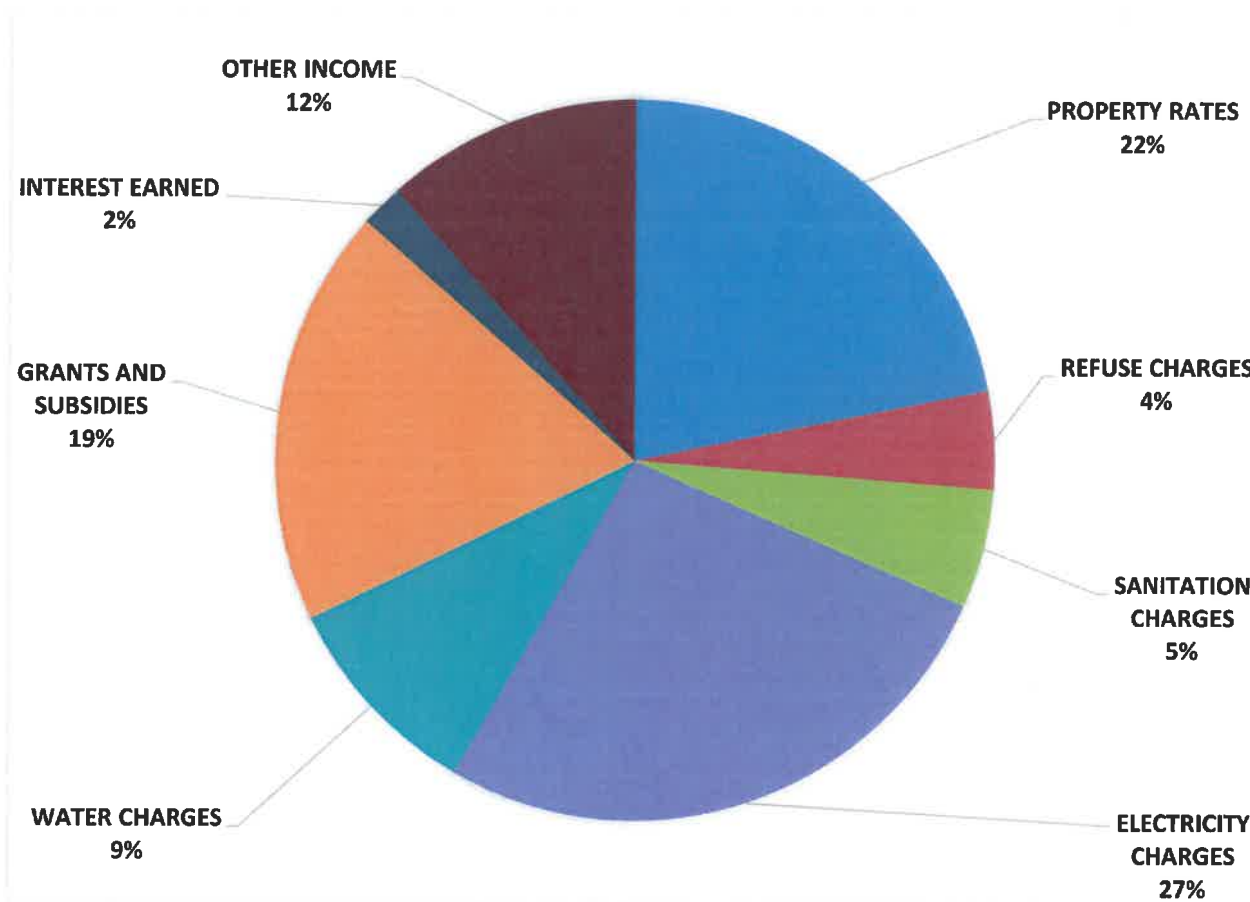
- External Investments - As at the end of December 2020, the City has underperformed by 31% on this revenue source. This has resulted in a downward adjustment of R8 000 000.
- Outstanding Debtors - At the end of December 2020, the actual revenue realised exceeds the year to date budget. This has resulted in an upward adjustment of R13 000 226.

(d) Transfers and subsidies - Transfers and Subsidies (Operating) have been adjusted downwards by R99 000 as a result of Integrated City Development Grant (ICDG) decrease of R99 000 in the Division of Revenue Second Amendment Act that was gazetted on 20 January 2021.

(e) Other Revenue - Budget for bus ticket sales has been reduced by R3 414 426 to R300 000 due to the reduced fleet and impact of Covid-19 to this service.

The pie chart (Figure 1) below depicts operating revenue budget per source. In terms of service revenue, electricity remains 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%. The Property Rates revenue totals 22% of the total municipal revenue. The municipality receives operating grants and subsidies totalling 19% of the total revenue, interest earned is 2% of the total revenue. Other revenue contributes 12% of the total revenue.

Figure 1: 2020/21 Consolidated Operating Revenue per Source



5.5 OPERATING EXPENDITURE FRAMEWORK

In arriving to the proposed operating expenditure framework adjustments in the mid-year adjustment budget, the following factors were considered:

- (a) Identified potential savings versus additional budget requests received.
- (b) Adjustments between the different expenditure types as requested by directorates.
- (c) Adjustments between the different expenditure types for correct classification.
- (d) Continuous enforcement of cost containment measures.
- (e) Potential to achieve the collection rate target of 90.5% (current as at 20/21 mid-year 60.08% versus 85.71% as at 2019/20 mid-year).
- (f) Funding availability and affordability.
- (g) Status of implementation readiness for each project.

The following table (Table 4) details adjustments to the consolidated operating expenditure budget per category. Table 4 below reflects that there is a total reduction of R99 000. The adjustments in table 4 below are mainly due to the reallocation of the budget to fund critical expenditure items. It also reflects reallocation of funding between the expenditure types to improve operational efficiency. The details of the reallocations are reflected below the table.

Table 4: 2020/21 Consolidated Mid-Year Adjusted Expenditure Budget per Category

2020/2021 ADJUSTMENT BUDGET REVENUE & EXPENDITURE FRAMEWORK	2020/2021 APPROVED OPEX BUDGET	2020/2021 FIRST ADJUSTMENT OPEX BUDGET	2020/2021 SECOND ADJUSTMENT OPEX BUDGET	ADJUSTMENTS	2020/2021 MID-YEAR ADJUSTMENT OPEX BUDGET
Expenditure Per Category					
Employee related costs	2.353.464.908	2.403.464.908	2.403.464.908	-6.950.606	2.396.514.302
Remuneration of councillors	72.765.784	72.765.784	72.765.784	0	72.765.784
Debt impairment	497.285.620	497.285.620	497.285.620	0	497.285.620
Depreciation & asset impairment	866.757.069	896.757.069	896.757.069	0	896.757.069
Finance charges	44.211.169	44.211.169	44.211.169	0	44.211.169
Bulk purchases:					
Electricity Bulk Purchases	1.779.698.226	1.779.698.226	1.779.698.226	-25.391.000	1.754.307.226
Water Bulk Purchases	277.777.426	277.777.426	277.777.426	-277.777.426	0
Contracted services	214.305.046	226.868.537	226.868.537	23.638.369	250.506.906
Transfers and grants	63.931.213	63.931.213	63.931.213	12.999.302	76.930.515
Repairs and Maintenance	399.033.640	399.033.640	399.033.640	13.126.000	412.159.640
Operating projects	291.551.103	376.709.837	377.793.257	7.370.229	385.163.486
Other expenditure	520.149.507	516.769.626	516.769.626	-616.294	516.153.332
Other materials	126.021.937	168.651.090	168.651.090	253.502.426	422.153.516
Total Direct Operating Expenditure	7.506.952.648	7.723.924.145	7.725.007.565	-99.000	7.724.908.565

After assessing the mid-year performance of the City and taking into account the considerations that are indicated above, it has been necessary that the following adjustments on the Operating Expenditure Budget be made:

- i. Employee Related Costs have been adjusted downwards by R6 950 606, this budget was misclassified as employee related costs and is now being reclassified to contracted services.
- ii. Electricity Bulk Purchases have been adjusted downwards by R25 391 000 as it has been assessed that there are savings realized in the mid-year. The reduced budget has

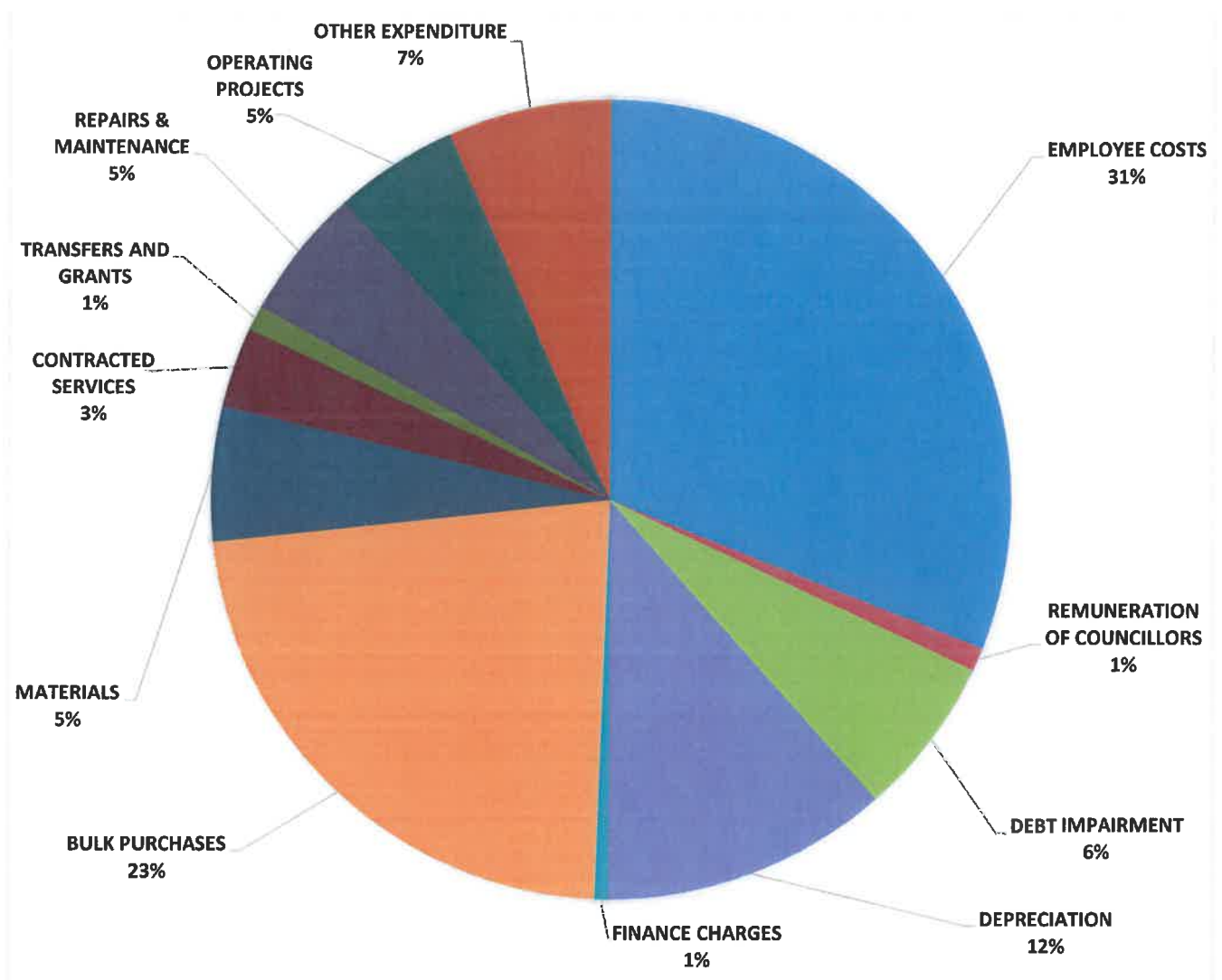
been re-allocated to fund the budget shortfall in other expenditure types by funding the additional budget requests from the directorates.

- iii. Water Bulk Purchases have been adjusted downwards by R277 777 426:
 - a. Water Bulk Purchases have been adjusted downwards by R26 000 000 as it has been assessed that there are savings realized in the mid-year. The reduced budget has been re-allocated to fund the budget shortfall in other expenditure types by funding the additional budget requests from the directorates.
 - b. In terms of the MFMA Circular No. 99, GRAP 12 and the guidance provided by National Treasury, municipalities have been advised to budget and account for Bulk Water Purchases as inventory as per GRAP 12. An amount of R251 777 426 has been transferred from Bulk Purchases to Other Materials.
- iv. Contracted Services have been adjusted upwards by R23 638 369, this is a reallocation of funds from various expenditure types to fund projected budget shortfall.
- v. Transfers and Grants have been adjusted downwards by R99 000 as a result of Integrated City Development Grant (ICDG) decrease of R99 000 in the Division of Revenue Second Amendment Act that was gazetted on 20 January 2021.
- vi. Repairs and Maintenance budget has been adjusted upwards by R13 126 000 through reallocation of funds within operating expenditure budget.
- vii. Operating Projects have been adjusted upwards by R7 370 229. Refer to section 5.5.1 of this report for the detailed narration on this item. The details of adjustments per projects are reflected in the schedule of operating projects that is attached as **Annexure 1**.
- viii. The Other Expenditure has been adjusted downwards by R616 294, these are reallocation of funds within the operating expenditure budget.

- ix. Other Materials have been adjusted upwards by R253 502 426:
- a. In terms of the MFMA Circular No. 99, GRAP 12 and the guidance provided by National Treasury, municipalities have been advised to budget and account for bulk water purchases as inventory as per GRAP 12. An amount of R251 777 426 has been transferred from Bulk Purchases to Other Materials.
 - b. An amount of R1 725 000 has been reallocated from other expenditure types to other materials.

The pie chart (Figure 2) below depicts split of operating expenditure budget per category. Employee Costs and Bulk Purchases represent the largest cost of the municipality, 31% and 23% of the total operating expenditure respectively. Depreciation totals 12% 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 accounts for 7% and Other Materials account for 5% of the total operating budget. Repairs and Maintenance is equal to 5% of the operating expenditure budget. Transfers and Grants paid account for 1%. Debt impairment also account for 6%. Finance Charges account for 1%, Contracted Services account for 3%, and Remuneration of Councillors account for 1%.

Figure 2: 2020/21 Consolidated Operating Expenditure per Type



5.5.1 Mid-Year Budget Adjustment on Operating Projects

The following tables (table 5 and 6) tabulates adjustments to the operating projects expenditure budget per funding source and per directorate respectively. It shows a total increase of R7 370 229 (an increase of R7 469 229 to Own Funding and a reduction of R99 000 in grant funding).

Table 5: 2020/21 Consolidated Mid-Year Adjustments to Operating Projects - Funding Source

FUNDING SOURCE	2020/2021 APPROVED OPEX BUDGET	2020/2021 FIRST ADJUSTMENT OPEX BUDGET	2020/2021 SECOND ADJUSTMENT OPEX BUDGET	ADJUSTMENT	2020/2021 MID-YEAR ADJUSTMENT OPEX BUDGET
OWN FUNDING	115.059.921	125.819.158	125.819.158	7.469.229	133.288.387
TOTAL OWN FUNDING	115.059.921	125.819.158	125.819.158	7.469.229	133.288.387
URBAN SETTLEMENT DEVELOPMENT GRANT	68.122.496	70.463.630	70.463.630	0	70.463.630
FINANCE MANAGEMENT GRANT	1.000.000	1.000.000	1.000.000	0	1.000.000
INFRASTRUCTURE SKILLS DEVELOPMENT GRANT	11.364.000	10.788.000	10.788.000	0	10.788.000
INTEGRATED CITY DEVELOPMENT GRANT	6.279.335	6.279.335	6.279.335	-99.000	6.180.335
EXPANDED PUBLIC WORKS PROGRAMME	8.449.000	8.449.000	8.449.000	0	8.449.000
HUMAN SETTLEMENTS DEVELOPMENT GRANT	81.276.351	81.276.351	81.276.351	0	81.276.351
PUBLIC TRANSPORT NETWORK GRANT C/O	0	0	1.083.420	0	1.083.420
HUMAN SETTLEMENTS DEVELOPMENT GRANT C/O	0	71.812.050	71.812.050	0	71.812.050
SALIDA C/O	0	822.313	822.313	0	822.313
TOTAL GRANTS	176.491.182	250.890.679	251.974.099	-99.000	251.875.099
TOTAL OPERATING PROJECTS BUDGET	291.551.103	376.709.837	377.793.257	7.370.229	385.163.486

Table 5 above depicts that the overall consolidated operating projects expenditure budget is adjusted upwards by R7 370 229 from R377 793 257 to R385 163 486. It reflects that the total own funding budget is increasing by R7 469 229 from R125 819 158 to R133 288 387. The overall grant funding that is allocated to the operating projects is decreasing by R99 000 from R251 974 099 to R251 875 099.

The increase of R7 469 229 in **own funded** projects:

- i. This results from the transfer of budget from municipal running costs to operating projects in order to improve operational efficiencies.

The decrease of R99 000 in **grant funding**:

- i. A downward adjustment by R99 000 as a result of Integrated City Development Grant (ICDG) decrease of R99 000 in the Division of Revenue Second Amendment Act that was gazetted on 20 January 2021.

Table 6: 2020/21 Consolidated Mid-Year Adjustments to Operating Projects – Directorate

DIRECTORATE	2020/2021 APPROVED OPEX BUDGET	2020/2021 FIRST ADJUSTMENT OPEX BUDGET	2020/2021 SECOND ADJUSTMENT OPEX BUDGET	ADJUSTMENT	2020/2021 MID-YEAR ADJUSTMENT OPEX BUDGET
EXECUTIVE SUPPORT SERVICES	53.000.000	53.822.313	53.822.313	0	53.822.313
CITY MANAGER'S OFFICE	48.192.296	50.533.430	50.533.430	4.901.000	55.434.430
CORPORATE SERVICES	12.364.000	22.547.237	22.547.237	0	22.547.237
SPATIAL PLANNING & DEVELOPMENT	6.310.705	6.310.705	7.394.125	0	7.394.125
ECONOMIC DEVELOPMENT & AGENCIES	4.850.000	4.850.000	4.850.000	1.300.000	6.150.000
FINANCE SERVICES	28.399.087	28.399.087	28.399.087	-3.530.771	24.868.316
HEALTH/PUBLIC SAFETY & EMERGENCY SERVICES	1.574.413	1.574.413	1.574.413	0	1.574.413
HUMAN SETTLEMENTS	81.276.351	153.088.401	153.088.401	1.000.000	154.088.401
INFRASTRUCTURE SERVICES	53.284.251	53.284.251	53.284.251		53.284.251
MUNICIPAL SERVICES	2.300.000	2.300.000	2.300.000	3.700.000	6.000.000
TOTAL OPERATING PROJECTS	291.551.103	376.709.837	377.793.257	7.370.229	385.163.486

Table 6 above reflects that the overall consolidated operating projects budget is adjusted upwards by R7 370 229 from R377 793 257 to R385 163 486. The adjustments between directorates are detailed below:

1. City Manager's Office: R4 901 000

- a. An increase of R1 000 000 for GTAC Cost recovery fees has been reallocated from own funding.
- b. Smart City Programme – Own funding amounting to R2 000 000 has been reallocated for this project.

- c. Expanded Public Works Programme (Counter funding) – Own funding amounting to R2 000 000 has been reallocated to counter fund the EPWP programme.
- d. A downward adjustment by R99 000 as a result of Integrated City Development Grant (ICDG) decrease of R99 000 in the Division of Revenue Second Amendment Act that was gazetted on 20 January 2021.

2. Economic Development & Agencies: R1 300 000

- a. An increase of R800 000 for the Township Economy Strategy from own funding reallocation.
- b. A budget of R500 000 has been reallocated to Commemoration of National Day.

3. Finance Services: (R3 530 771)

- a. A decrease of R3 530 771 from General Valuations, this amount has been reallocated to fund the municipal running costs of the directorate.

4. Human Settlements: R1 000 000

- a. An increase of R1 000 000 for Mdantsane Sharing Houses Dispute Resolution has been reallocated from own funding.

5. Municipal Services: R3 700 000

- a. Coastal Crime Prevention – Own funding amounting to R3 700 000 has been reallocated to this project.

The details of adjustments per programme/ project are reflected on the schedule of operating projects that is attached as **Annexure 1** where the projects have been rolled up at programme level (**Annexure 1.1** has also been attached and provides details of accounts / votes that make up a programme / project).

5.6 CAPITAL EXPENDITURE FRAMEWORK

The following factors were considered in arriving in the proposed adjustments on the capital expenditure framework:

- (a) Identified potential savings versus additional budget requests received.
- (b) Continuous enforcement of cost containment measures.
- (c) Funding availability and affordability.
- (d) Status of implementation readiness for each project.

Therefore, the proposed adjustments are mainly re-allocations within and across directorates.

The tables (table 7 and 8) below indicate adjustments to the capital expenditure budget per funding source and per directorate respectively. To arrive in the adjustments that are a summarised in the below two tables (table 7 and 8), a detailed analysis was undertaken to determine those projects that are having challenges and identify those that are progressing at a pace that is above the original anticipation and therefore requiring additional funding. This was used as the basis for re-allocating funding without compromising the municipality's strategic objectives and priorities as set up in the IDP. Details of reallocation of funding are provided below.

5.6.1 2020/2021 Mid-Year Adjustments to Consolidated Capital Expenditure Budget

Table 7: 2020/21 Mid-Year Adjustments to Capital Expenditure Budget – Funding

CAPITAL BUDGET PER FUNDING	2020/2021 APPROVED CAPITAL BUDGET	2020/2021 FIRST ADJUSTED CAPITAL BUDGET	2020/2021 SECOND ADJUSTED CAPITAL BUDGET	ADJUSTMENTS	2020/2021 MID-YEAR ADJUSTED CAPITAL BUDGET
OWN FUNDING	623.019.286	623.019.286	623.019.286	-3.255.964	619.763.322
OWN FUNDING c/o	0	241.657.275	241.657.275	-500.000	241.157.275
LOAN	230.800.142	230.800.142	230.800.142		230.800.142
TOTAL OWN FUNDING	853.819.428	1.095.476.703	1.095.476.703	-3.755.964	1.091.720.739
URBAN SETTLEMENT DEVELOPMENT GRANT	693.231.504	616.657.370	616.657.370	0	616.657.370
URBAN SETTLEMENT DEVELOPMENT GRANT C/O	0	0	223.055.535	0	223.055.535
BCMET c/o	0	541.862	541.862	0	541.862
PUBLIC TRANSPORT NETWORK GRANT	86.000.000	86.000.000	77.287.570	0	77.287.570
INTERGRATED CITY DEVELOPMENT GRANT	2.037.665	2.037.665	2.037.665	0	2.037.665
ENERGY EFFICIENCY DEMAND SIDE MANAGEMENT GRANT	7.000.000	6.300.000	6.300.000	0	6.300.000
NEIGHBOURHOOD DEVELOPMENT PARTNERSHIP GRANT	18.000.000	18.000.000	18.000.000	0	18.000.000
INFRASTRUCTURE SKILLS DEVELOPMENT GRANT	150.000	150.000	150.000	0	150.000
TOTAL GRANTS	806.419.169	729.686.897	944.030.002	0	944.030.002
TOTAL CONSOLIDATED CAPITAL BUDGET	1.660.238.597	1.825.163.600	2.039.506.705	-3.755.964	2.035.750.741

Table 8: 2020/21 Mid-Year Adjustments to Capital Expenditure Budget -Directorate

CAPITAL BUDGET PER DIRECTORATE	2020/2021 APPROVED CAPITAL BUDGET	2020/2021 FIRST ADJUSTED CAPITAL BUDGET	2020/2021 SECOND ADJUSTED CAPITAL BUDGET	ADJUSTMENTS	2020/2021 MID- YEAR ADJUSTED CAPITAL BUDGET
EXECUTIVE SUPPORT SERVICES	4.000.000	4.561.406	4.561.406	-1.500.000	3.061.406
CITY MANAGER'S OFFICE	5.669.366	5.669.366	5.669.366	0	5.669.366
CORPORATE SERVICES	13.498.851	19.230.547	19.230.547	244.036	19.474.583
SPATIAL PLANNING & DEVELOPMENT	158.200.000	174.244.184	171.185.071	-2.500.000	168.685.071
ECONOMIC DEVELOPMENT & AGENCIES	31.975.155	51.970.007	61.856.077	0	61.856.077
FINANCE SERVICES	83.093.518	145.680.215	145.680.215	0	145.680.215
HEALTH/PUBLIC SAFETY & EMERGENCY SERVICES	20.973.218	40.472.581	40.472.581	0	40.472.581
HUMAN SETTLEMENTS	312.493.330	266.548.850	429.078.763	0	429.078.763
INFRASTRUCTURE SERVICES	928.514.788	926.473.418	952.252.718	0	952.252.718
MUNICIPAL SERVICES	49.310.371	93.867.627	113.074.562	0	113.074.562
TOTAL CAPITAL BUDGET: BCMM	1.607.728.597	1.728.718.201	1.943.061.306	-3.755.964	1.939.305.342
BCMDA	52.510.000	96.445.399	96.445.399	0	96.445.399
TOTAL CAPITAL: CONSOLIDATED	1.660.238.597	1.825.163.600	2.039.506.705	-3.755.964	2.035.750.741

Table 7 & 8 above indicate that the overall consolidated capital expenditure budget is adjusted downwards by R3 755 964 from R2 039 506 705 to R2 035 750 741. This is resulting from the following adjustments:

1. Executive Support Services: (R1 500 000)

- a. A reduction of R1 500 000 from Councillor's and Traditional Leader's Furniture & Equipment, this funding will be utilised in the 2021/2022 financial year.

2. Corporate Services: R244 036

- a. An additional budget amounting to R244 036 for procurement of a call budgeting system software to reduce telephone costs within BCMM.

3. Spatial Planning & Development: (R2 500 000)

- a. A reduction of R2 000 000 from Upgrading of KWT Payments Hall.
- b. A reduction of R500 000 from Upgrading of Lifts for BCMM Buildings.

The details of adjustments per programme/project are reflected on the schedule of operating projects that is attached as **Annexure 2** where the projects have been rolled up at programme level (**Annexure 2.1** has also been attached, it provides the detail of accounts / votes that make up the programme / project).

6. CHALLENGES

None.

7. STAFF IMPLICATIONS

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

8. FINANCIAL IMPLICATIONS

The mid-year adjustments to the consolidated 2020/21 budget do 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 consolidated 2020/21 Operating and Capital Budget are outlined below:

- A. The adjusted budget of the Parent municipality (BCMM) for the 2020/2021 Mid-Year Adjustment Budget as follows:
 - iv. The adjustment from R7 591 471 929 to R7 591 372 929 of the BCMM 2020/21 Operating Revenue Budget.
 - v. The adjustment from R7 590 873 258 to R7 590 774 258 of the BCMM 2020/21 Operating Expenditure Budget.
 - vi. The adjustment from R2 036 996 705 to R2 033 240 741 of the BCMM 2020/21 Capital Budget.

- B. The consolidated adjusted budget for the 2020/2021 Mid-Year Adjustment Budget as follows:
 - iv. The adjustment from R7 725 606 557 to R7 725 507 557 of the consolidated 2020/21 Operating Revenue Budget.
 - v. The adjustment from R7 725 007 565 to R7 724 908 565 of the consolidated 2020/21 Operating Expenditure Budget.
 - vi. The adjustment from R2 039 506 705 to R2 035 750 741 of the consolidated 2020/21 Capital Budget.

9. OTHER PARTIES CONSULTED

- 9.1 All Directorates.
- 9.2 Budget Steering Committee.
- 9.3 Mayoral Committee.
- 9.4 Buffalo City Metropolitan Council

10. 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

A handwritten signature in black ink, appearing to read 'Andile Sihlahla', written over a horizontal line. The signature is stylized and cursive.

Date

11/02/2021

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)