

REPORT TO COUNCIL: 24 AUGUST 2022

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FOURTH ADJUSTMENT BUDGET REPORT FOR THE 2021/2022 FINANCIAL YEAR

1. PURPOSE

The purpose of the report is for Council to **consider** and **approve** the fourth adjustment budget report of Buffalo City Metropolitan Municipality for the 2021/2022 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 fourth 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 2021/2022 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.

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 | 2021/2022 | 2021/2022 | ADJUSTMENTS | 2021/2022 |
|---|-------------------------|----------------------|--------------|-----------------------|
| | MID-YEAR ADJ. BUDGET | THIRD ADJ. BUDGET | | FOURTH ADJ. BUDGET |
| Total Revenue | 8 172 794 462 | 8 194 922 230 | 4 492 334 | 8 199 414 564 |
| Total Operating Expenditure Excluding Operating Projects | 7 724 739 771 | 7 714 743 271 | 52 000 000 | 7 766 743 271 |
| Operating Projects | 445 687 777 | 477 812 045 | (47 507 666) | 430 304 379 |
| Total Operating Expenditure Including Operating Projects | 8 170 427 548 | 8 192 555 316 | 4 492 334 | 8 197 047 650 |
| Surplus / (Deficit) | 2 366 914 | 2 366 914 | 0 | 2 366 914 |
| | | | | |
| Total Capital Expenditure | 1 811 142 797 | 1 601 553 322 | (4 492 334) | 1 597 060 989 |
| | | | | |
| Total Opex and Capex Budget | 9 981 570 345 | 9 794 108 638 | 0 | 9 794 108 639 |

B. The following table provides a high-level summary of the Operating and Capital Budget Adjustments for the entity (BCMDA):

| OPERATING AND CAPITAL BUDGET EXPENDITURE | 2021/2022 | 2021/2022 | ADJUSTMENTS | 2021/2022 |
|--|-------------|-------------|-------------|-------------|
| | MID-YEAR | THIRD | | FOURTH |
| | ADJ. BUDGET | ADJ. BUDGET | | ADJ. BUDGET |
| Total Revenue | 129 933 084 | 129 933 084 | 48 705 460 | 178 638 544 |
| Total Operating Expenditure | 129 933 084 | 129 933 084 | 48 705 460 | 178 638 544 |
| Surplus / (Deficit) | 0 | 0 | 0 | 0 |
| | | | | |
| Total Capital Expenditure | 1 200 000 | 1 200 000 | 0 | 1 200 000 |
| | | | | |
| Total Opex and Capex Budget | 131 133 084 | 131 133 084 | 48 705 460 | 179 838 544 |

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

| OPERATING AND CAPITAL BUDGET EXPENDITURE | 2021/2022 | 2021/2022 | ADJUSTMENTS | 2021/2022 |
|---|----------------|---------------|--------------|---------------|
| | MID-YEAR | THIRD | | FOURTH |
| | ADJ. BUDGET | ADJ. BUDGET | | ADJ. BUDGET |
| Total Revenue | 8 302 727 546 | 8 324 855 314 | 53 197 794 | 8 378 053 108 |
| Total Operating Expenditure Excluding Operating Projects | 7 854 672 855 | 7 844 676 355 | 100 705 460 | 7 945 381 815 |
| Operating Projects | 445 687 777 | 477 812 045 | (47 507 666) | 430 304 379 |
| Total Operating Expenditure Including Operating Projects | 8 300 360 632 | 8 322 488 400 | 53 197 794 | 8 375 686 194 |
| Surplus / (Deficit) | 2 366 914 | 2 366 914 | 0 | 2 366 914 |
| | | | | |
| Total Capital Expenditure | 1 812 342 797 | 1 602 753 322 | (4 492 334) | 1 598 260 989 |
| | | | | |
| Total Opex and Capex Budget | 10 112 703 429 | 9 925 241 722 | 48 705 460 | 9 973 947 183 |

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 2021/2022 fourth 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 | 2021/2022 MID-YEAR ADJ. BUDGET | 2021/2022 THIRD ADJ. BUDGET | ADJUSTMENTS | 2021/2022 FOURTH ADJ. BUDGET |
|---|--------------------------------------|--------------------------------------|--------------------|------------------------------------|
| Total Revenue | 8 302 727 546 | 8 324 855 314 | 53 197 794 | 8 378 053 108 |
| Total Operating Expenditure | 8 300 360 632 | 8 322 488 400 | 53 197 794 | 8 375 686 194 |
| Surplus /(Deficit) | 2 366 914 | 2 366 914 | 0 | 2 366 914 |
| Total Capital Expenditure | 1 812 342 797 | 1 602 753 322 | (4 492 334) | 1 598 260 989 |
| Total Opex and Capex Budget | 10 112 703 429 | 9 925 241 722 | 48 705 460 | 9 973 947 183 |

5.2 COUNCIL RESOLUTIONS

On 31 May 2021 the Council of Buffalo City Metropolitan Municipality met to consider, approve and adopt the 2021/22 – 2023/24 MTREF Budget. The Council further met on 25 August 2021 to consider and approve the roll-over adjustment budget. On 28 February 2022, BCMM Council met to consider the 2021/2022 mid-year adjustment budget. On 31 May 2022 the Council met to consider and approve the third 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 2021/2022 Fourth Adjustment Budget as follows:
 - i. The adjustment from R8 194 922 230 to R8 199 414 564 of the BCMM 2021/2022 Operating Revenue Budget.
 - ii. The adjustment from R8 192 555 316 to R8 197 047 650 of the BCMM 2021/2022 Operating Expenditure Budget.
 - iii. The adjustment from R1 601 553 322 to R1 597 060 989 of the BCMM 2021/2022 Capital Budget.

- B. The adjusted budget for BCMDA for the 2021/2022 Fourth Adjustment Budget as follows:
 - i. The adjustment from R129 933 084 to R178 638 544 of the BCMDA 2021/22 Operating Revenue Budget.
 - ii. The adjustment from R129 933 084 to R178 638 544 of the BCMDA 2021/2022 Operating Expenditure Budget.
 - iii. The BCMDA 2021/2022 Capital budget remains unchanged at R1 200 000.

C. The consolidated adjusted budget for the 2021/2022 Fourth Adjustment Budget as follows:

- iv. The adjustment from R8 324 855 314 to R8 378 053 108 of the consolidated 2021/22 Operating Revenue Budget.
- v. The adjustment from R8 322 488 400 to R8 375 686 194 of the consolidated 2021/2022 Operating Expenditure Budget.
- vi. The adjustment from R1 602 753 322 to R1 598 260 989 of the consolidated 2021/2022 Capital Budget.



X. A. PAKATI
EXECUTIVE MAYOR



DATE

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 E Schedules (BCMDA)
- Annexure 5: National Treasury B Schedules (Consolidated)

5.3 EXECUTIVE SUMMARY

BCMM continues to take a more conservative approach in the manner in which it approaches the budgeting including this fourth adjustment budget. The 2021/2022 fourth 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 R53 197 794 from R8 324 855 314 to R8 378 053 1908 (refer to section 5.4 below for details). The operating expenditure budget has also increased by R53 197 794 from R8 322 488 400 to R8 375 686 194 (refer to section 5.5 below for details). The capital budget has reduced by R4 492 334 from R1 602 753 322 to R1 598 260 989 (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 2021/2022 annual budget. The table below indicates the summary of the 2021/2022 fourth adjustment budget.

Table 2: 2021/2022 Consolidated Fourth Adjustment Budget Summary

| OPERATING AND CAPITAL BUDGET EXPENDITURE | 2021/2022 | 2021/2022 | ADJUSTMENTS | 2021/2022 |
|---|-------------------------|----------------------|---------------------|-----------------------|
| | MID-YEAR ADJ. BUDGET | THIRD ADJ. BUDGET | | FOURTH ADJ. BUDGET |
| Total Revenue | 8 302 727 546 | 8 324 855 314 | 53 197 794 | 8 378 053 108 |
| Total Operating Expenditure Excluding Operating Projects | 7 854 672 855 | 7 844 676 355 | 100 705 460 | 7 945 381 815 |
| Operating Projects | 445 687 777 | 477 812 045 | (47 507 666) | 430 304 379 |
| Total Operating Expenditure Including Operating Projects | 8 300 360 632 | 8 322 488 400 | 53 197 794 | 8 375 686 194 |
| Surplus / (Deficit) | 2 366 914 | 2 366 914 | 0 | 2 366 914 |
| | | | | |
| Total Capital Expenditure | 1 812 342 797 | 1 602 753 322 | (4 492 334) | 1 598 260 989 |
| | | | | |
| Total Opex and Capex Budget | 10 112 703 429 | 9 925 241 722 | 48 705 460 | 9 973 947 183 |

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 R53 197 794 is resulting from mostly the re-allocation of grant funding from Capital projects to Operating projects and BCMDA adjustments. This amount is made up of the following adjustments:

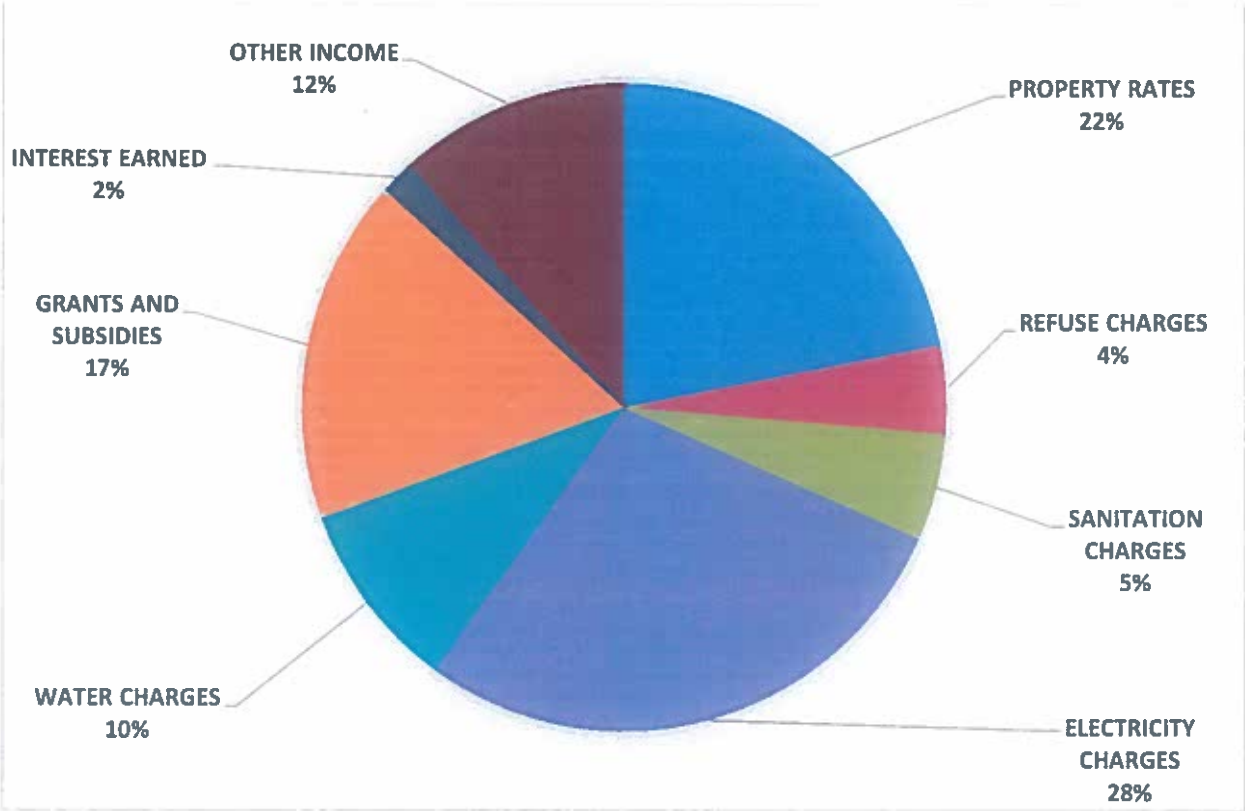
- a) An increase of R81 632 to BCMDA's Interest Earned on External Investments to align to the actual interest earned.
- b) An increase of R2 144 616 to BCMDA's Agency Services as a result of the entity over performing on the capital projects that its implementing on behalf of the Metro.
- c) An increase of R50 965 607 to Transfers & Subsidies:
 - i. An increase of R4 492 334 in Urban Settlement Development Grant transferred from Capital transfers.
 - ii. An increase of R46 473 273 to BCMDA's Transfers and Subsidies as a result of the entity over performing on the capital projects that its implementing on behalf of the Metro.
- d) An increase of R5 939 to BCMDA's Other revenue to align to actual on Other revenue earned.

Table 3: 2021/2022 Fourth Adjusted Revenue per Source

| 2021/2022 FIRST ADJUSTMENT BUDGET REVENUE FRAMEWORK | 2021/2022 MID YEAR ADJUSTMENT BUDGET | 2021/2022 THIRD ADJUSTMENT BUDGET | ADJUSTMENTS | 2021/2022 FOURTH ADJUSTMENT BUDGET |
|---|--------------------------------------|-----------------------------------|-------------------|------------------------------------|
| Revenue by Source | | | | |
| Property rates | 1 834 764 190 | 1 834 764 190 | 0 | 1 834 764 190 |
| Service charges - electricity revenue | 2 372 337 992 | 2 372 337 992 | 0 | 2 372 337 992 |
| Service charges - water revenue | 795 707 988 | 795 707 988 | 0 | 795 707 988 |
| Service charges - sanitation revenue | 447 060 205 | 447 060 205 | 0 | 447 060 205 |
| Service charges - refuse revenue | 367 953 776 | 367 953 776 | 0 | 367 953 776 |
| Rental of facilities and equipment | 20 959 164 | 20 959 164 | 0 | 20 959 164 |
| Interest earned - external investments | 30 654 384 | 30 654 384 | 81 632 | 30 736 016 |
| Interest earned - outstanding debtors | 115 695 656 | 115 695 656 | 0 | 115 695 656 |
| Fines, penalties and forfeits | 21 407 384 | 21 407 384 | 0 | 21 407 384 |
| Licences and permits | 18 834 621 | 18 834 621 | 0 | 18 834 621 |
| Agency services | 44 746 473 | 44 746 473 | 2 144 616 | 46 891 089 |
| Transfers and subsidies - Operating | 1 370 112 989 | 1 392 240 757 | 50 965 607 | 1 443 206 364 |
| Other revenue | 862 492 724 | 862 492 724 | 5 939 | 862 498 663 |
| Total Direct Operating Revenue | 8 302 727 546 | 8 324 855 314 | 53 197 794 | 8 378 053 108 |

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 28% of the total revenue. This is followed by water tariffs at 10%, 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 17% of the total revenue, interest earned is 2% of the total revenue. Other revenue contributes 12% of the total revenue.

Figure 1: 2021/2022 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 R53 197 794 is resulting from the re-allocation of grant funding from Capital Projects to Operating projects, BCMDA adjustments 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: 2021/2022 Fourth Adjusted Expenditure Budget per Category

| 2021/2022 FIRST ADJUSTMENT BUDGET EXPENDITURE FRAMEWORK | 2021/2022 MID YEAR ADJUSTMENT BUDGET | THIRD ADJUSTMENT BUDGET | ADJUSTMENTS | FOURTH ADJUSTMENT BUDGET |
|---|--------------------------------------|-------------------------|-------------------|--------------------------|
| Expenditure Per Category | | | | |
| Employee related costs | 2 522 058 310 | 2 522 058 310 | (16 918 522) | 2 505 139 788 |
| Remuneration of councillors | 68 534 239 | 68 534 239 | (2 000 000) | 66 534 239 |
| Debt impairment | 966 894 150 | 966 894 150 | 254 825 819 | 1 221 719 969 |
| Depreciation & asset impairment | 649 318 607 | 649 318 607 | (100 000 000) | 549 318 607 |
| Finance charges | 23 235 443 | 23 235 443 | (2 546 000) | 20 689 443 |
| Electricity Bulk Purchases | 2 010 260 650 | 2 010 260 650 | (88 000 000) | 1 922 260 650 |
| Contracted services | 229 363 736 | 222 521 001 | 36 523 259 | 259 044 260 |
| Transfers and grants | 93 182 956 | 84 360 936 | (700 000) | 83 660 936 |
| Repairs and Maintenance | 414 549 404 | 419 232 275 | (14 500 000) | 404 732 275 |
| Operating projects | 445 687 779 | 477 812 046 | (47 507 666) | 430 304 380 |
| Other expenditure | 497 743 402 | 501 232 463 | 47 951 904 | 549 184 367 |
| Other materials | 379 531 956 | 377 028 280 | (15 931 000) | 361 097 280 |
| Losses | 0 | 0 | 2 000 000 | 2 000 000 |
| Total Direct Operating Expenditure | 8 300 360 632 | 8 322 488 400 | 53 197 794 | 8 375 686 194 |

A NET INCREASE OF R53 197 794 IS DUE TO THE FOLLOWING ADJUSTMENTS:

1. The grant adjustments/ reallocations made on operating projects have resulted in an increase amounting to R 4 492 334:
 - a) Urban Settlement Development Grant amounting to R4 492 334 is being reallocated from Capital to Operating projects in order to improve operational efficiency.

2. Re-allocation of R301 846 000 savings from the expenditure types listed below:
 - a) A decrease of R16 000 000 to Employee related costs.
 - b) A decrease of R2 000 000 to Remuneration of Councillors
 - c) A decrease of R100 000 000 to Depreciation
 - d) A decrease of R2 546 000 to Finance charges.
 - e) A decrease of R88 000 000 to Electricity bulk purchases.
 - f) A decrease of R10 000 000 to Contracted services.
 - g) A decrease of R800 000 to Transfers and grants.
 - h) A decrease of R14 500 000 to Repairs & maintenance.
 - i) A decrease of R52 000 000 to Operating projects
 - j) A decrease of R16 000 000 to Other materials.

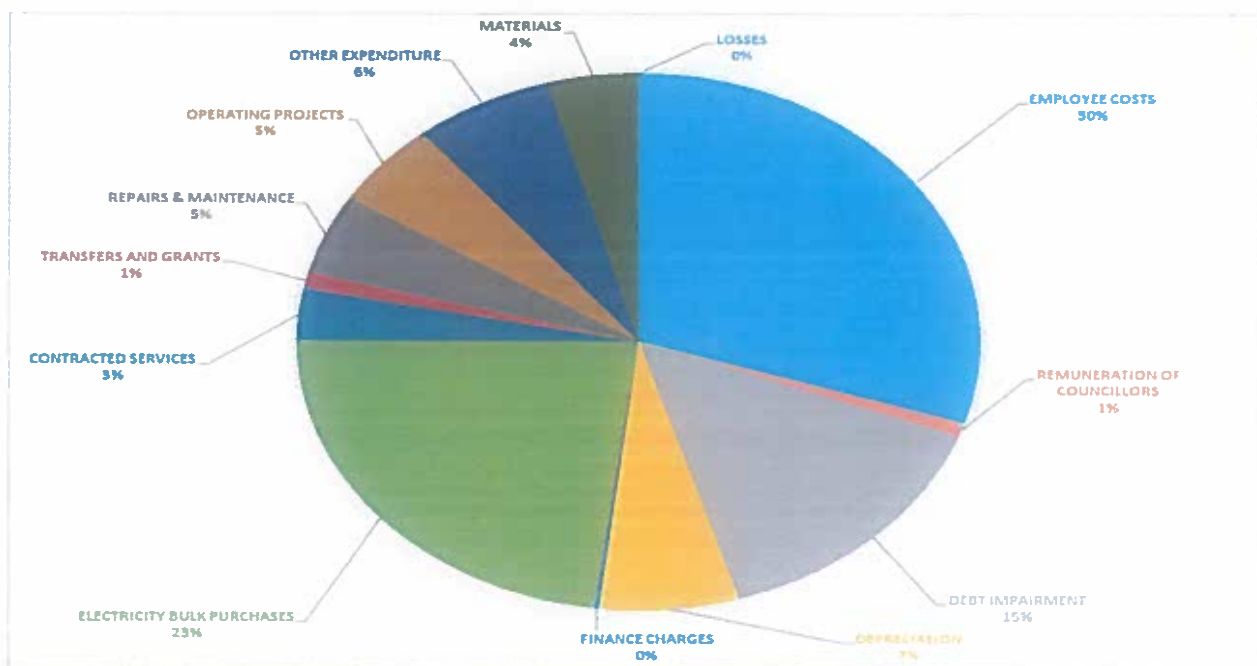
3. Re-allocation of R301 846 000 from the above-mentioned expenditure types to the following:
 - a) An increase of R254 825 819 to Debt impairment as more debt impairment was incurred than originally projected. This is a result of decrease in collection rate. The negative impact of COVID-19 to the economic climate is having negative effect to the financial situation of the City and the ability of its customers to pay its debt.
 - b) An increase of R45 020 181 to Other Expenditure in order to improve operational efficiency in mainly the following items:
 - i. Advertising and marketing costs
 - ii. Commission
 - iii. Water Resource Management charges
 - iv. Hire Charges (Plant Hire)
 - c) An increase of R2 000 000 to Losses due to inventory write offs (damages and shortages) of R560 000 and insurance related losses of R1 440 000.

4. An increase of R48 705 460 to BCMDA operating expenditure based on the following:
 - a) Employee related costs reducing by R918 522, adjustment is to correct misallocation;

- b) Contracted services increasing by R46 523 259 due to over performance by the entity on projects that it's implementing on behalf of BCMM;
- c) Transfers & Grants increasing by R100 000 to correct misallocation;
- d) An increase of R2 931 723 to Other Expenditure in order to improve operational efficiency;
- e) An increase of R69 000 to Other Materials in order to improve operational efficiency.

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 23% of the total operating expenditure respectively. Depreciation totals 7% 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 6% of the total operating budget. Operating Projects, Repairs and Maintenance each account for 5% of the total operating budget. Contracted Services equal to 3% and Other Materials account to 4% of the total operating expenditure budget. Debt Impairment accounts for 15% for the total operating budget. Remuneration of Councillors and Transfers and Grants account for 1%.

Figure 2: 2021/2022 Operating Expenditure per Type



5.5.1 Fourth Adjustment Budget 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: 2021/2022 Fourth Adjustments to Operating Projects - Funding Source

| FUNDING SOURCE | 2021/2022 MID - YEAR ADJUSTMENT BUDGET | 2021/2022 THIRD ADJUSTMENT BUDGET | ADJUSTMENTS | 2021/2022 FOURTH ADJUSTMENT BUDGET |
|---|---|--|---------------------|---|
| OWN FUNDING | 172 720 346 | 175 594 826 | (52 000 000) | 123 594 826 |
| TOTAL OWN FUNDING | 172 720 346 | 175 594 826 | (52 000 000) | 123 594 826 |
| URBAN SETTLEMENT DEVELOPMENT GRANT | 44 641 150 | 44 641 150 | 4 492 334 | 49 133 484 |
| FINANCE MANAGEMENT GRANT | 1 000 000 | 924 000 | - | 924 000 |
| INFORMAL SETTLEMENTS UPGRADING PARTNERSHIP GRANT | 8 300 000 | 5 248 065 | - | 5 248 065 |
| INFRASTRUCTURE SKILLS DEVELOPMENT GRANT | 10 350 000 | 10 350 000 | - | 10 350 000 |
| PROGRAMME AND PROJECT PREPARATION SUPPORT GRANT (PPPSG) | 8 941 000 | 8 941 000 | - | 8 941 000 |
| NEIGHBOURHOOD DEVELOPMENT PARTNERSHIP GRANT (NDPG) | 12 494 513 | 19 616 533 | - | 19 616 533 |
| EXPANDED PUBLIC WORKS PROGRAMME | 7 300 000 | 7 300 000 | - | 7 300 000 |
| HUMAN SETTLEMENTS DEVELOPMENT GRANT | 99 082 000 | 124 337 703 | - | 124 337 703 |
| HUMAN SETTLEMENTS DEVELOPMENT GRANT C/O | 80 477 911 | 80 477 911 | - | 80 477 911 |
| SALAIDA C/O | 380 857 | 380 857 | - | 380 857 |
| TOTAL GRANTS | 272 967 432 | 302 217 220 | 4 492 334 | 306 709 554 |
| TOTAL OPERATING PROJECTS BUDGET | 445 687 778 | 477 812 046 | (47 507 666) | 430 304 380 |

Table 6: 2021/2022 Fourth Adjustments to Operating Projects – Directorate

| DIRECTORATE | 2021/2022 MID- YEAR ADJUSTMENT BUDGET | 2021/2022 THIRD ADJUSTMENT BUDGET | ADJUSTMENTS | 2021/2022 FOURTH ADJUSTMENT BUDGET |
|--|--|--|---------------------|---|
| EXECUTIVE SUPPORT SERVICES | 53 469 018 | 53 469 018 | (4 608 948) | 48 860 070 |
| CITY MANAGER'S OFFICE | 48 434 400 | 48 434 400 | (1 486 361) | 46 948 039 |
| CORPORATE SERVICES | 31 379 462 | 31 379 462 | (9 329 398) | 22 050 065 |
| SPATIAL PLANNING & DEVELOPMENT | 8 750 000 | 6 248 065 | (1 670 396) | 4 577 669 |
| ECONOMIC DEVELOPMENT & AGENCIES | 14 345 518 | 14 195 518 | (1 692 104) | 12 503 414 |
| FINANCE SERVICES | 47 821 684 | 44 245 684 | (31 799 727) | 12 445 957 |
| PUBLIC SAFETY & EMERGENCY SERVICES | 228 790 | 228 790 | (112 955) | 115 835 |
| HUMAN SETTLEMENTS | 183 859 912 | 208 365 615 | (35 824) | 208 329 791 |
| INFRASTRUCTURE SERVICES | 45 500 000 | 52 224 479 | 4 271 885 | 56 496 364 |
| SPORTS, RECREATION & COMMUNITY DEVELOPMENT | 1 900 000 | 1 900 000 | (162 136) | 1 737 864 |
| SOLID WASTE, ENVIRONMENTAL & HEALTH MANAGEMENT | 9 998 995 | 17 121 015 | (881 702) | 16 239 314 |
| TOTAL OPERATING PROJECTS | 445 687 779 | 477 812 046 | (47 507 666) | 430 304 380 |

The adjustments show a total net decrease of R47 507 666 resulting from the following:

1. Urban Settlement Development Grant amounting to R4 492 334 is being re-allocated from Capital to Operating projects in order to improve efficiency.
2. Re-allocations have also been done between directorates to improve overall performance within operating projects.
3. An amount of R52 000 000 has been reallocated from Operating projects to operating budget.

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 7:2021/2022 Fourth Adjustments to Capital Expenditure Budget –Funding

| CAPITAL BUDGET PER FUNDING | 2021/2022 MID-YEAR ADJUSTMENT BUDGET | 2021/2022 THIRD ADJUSTMENT BUDGET | ADJUSTMENTS | 2021/2022 FOURTH ADJUSTMENT BUDGET |
|--|---|--|--------------------|---|
| OWN FUNDING | 850 346 269 | 855 690 573 | 0 | 855 690 573 |
| LOAN | 235 311 000 | 35 311 000 | 0 | 35 311 000 |
| TOTAL OWN FUNDING | 1 085 657 269 | 891 001 573 | 0 | 891 001 573 |
| URBAN SETTLEMENT DEVELOPMENT GRANT | 450 043 850 | 455 063 850 | (4 492 334) | 450 571 516 |
| BCMET C/O | 487 498 | 487 498 | 0 | 487 498 |
| FINANCIAL MANAGEMENT GRANT | | 76 000 | 0 | 76 000 |
| INFORMAL SETTLEMENTS UPGRADING PARTNERSHIP GRANT | 253 128 000 | 233 009 935 | 0 | 233 009 935 |
| ENERGY EFFICIENCY DEMAND SIDE MANAGEMENT GRANT | 9 000 000 | 9 000 000 | 0 | 9 000 000 |
| NEIGHBOURHOOD DEVELOPMENT PARTNERSHIP GRANT | 13 876 180 | 13 964 466 | 0 | 13 964 466 |
| INFRASTRUCTURE SKILLS DEVELOPMENT GRANT | 150 000 | 150 000 | 0 | 150 000 |
| TOTAL GRANTS | 726 685 528 | 711 751 749 | (4 492 334) | 707 259 415 |
| | | | | |
| TOTAL CAPITAL BUDGET | 1 812 342 797 | 1 602 753 322 | (4 492 334) | 1 598 260 989 |

Table 8: 2021/2022 Fourth Adjustments to Capital Expenditure Budget – Directorate

| CAPITAL BUDGET PER DIRECTORATE | 2021/2022 MID-YEAR ADJUSTMENT BUDGET | 2021/2022 THIRD ADJUSTMENT BUDGET | ADJUSTMENTS | 2021/2022 FOURTH ADJUSTMENT BUDGET |
|---|---|--|---------------------|---|
| EXECUTIVE SUPPORT SERVICES | 6 386 978 | 6 386 978 | 0 | 6 386 978 |
| CITY MANAGER'S OFFICE | 3 907 177 | 3 907 177 | 19 829 | 3 927 006 |
| CORPORATE SERVICES | 16 690 710 | 16 690 710 | (5 489 875) | 11 200 835 |
| SPATIAL PLANNING & DEVELOPMENT | 127 344 758 | 132 082 812 | 9 436 242 | 141 519 054 |
| ECONOMIC DEVELOPMENT & AGENCIES | 87 730 167 | 84 000 685 | 478 029 | 84 478 714 |
| FINANCE SERVICES | 180 382 109 | 242 047 587 | (35 337 128) | 206 710 459 |
| PUBLIC SAFETY & EMERGENCY SERVICES | 30 298 619 | 30 548 619 | (15 608 347) | 14 940 272 |
| HUMAN SETTLEMENTS | 276 034 750 | 256 242 935 | (20 396 458) | 235 846 477 |
| INFRASTRUCTURE SERVICES | 954 744 462 | 696 959 972 | 33 015 374 | 729 975 347 |
| SPORTS, RECREATION & COMMUNITY DEVELOPMENT | 43 683 394 | 48 933 394 | (3 420 816) | 45 512 578 |
| SOLID WASTE, ENVIRONMENTAL & HEALTH MANAGEMENT | 27 577 115 | 27 389 895 | (11 863 450) | 15 526 445 |
| TOTAL CAPITAL BUDGET:BCMM | 1 754 780 240 | 1 545 190 765 | (49 166 600) | 1 496 024 166 |
| ASSET REPLACEMENT | 5 000 000 | 5 000 000 | (1 730 571) | 3 269 429 |
| BCMDA PROJECTS | 52 562 557 | 52 562 557 | 46 404 837 | 98 967 394 |
| TOTAL CAPITAL:CONSOLIDATED | 1 812 342 797 | 1 602 753 322 | (4 492 334) | 1 598 260 989 |

The adjustments reflect a net decrease of R4 492 334 which is made up of the following:

1. A decrease of R4 492 334 of Urban Settlement Development Grant, this is being transferred from Capital to operating projects.

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 2021/2022 Fourth 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 2021/2022 Capital and Operating Budget are outlined below:

A. The adjusted budget of the Parent municipality (BCMM) for the 2021/2022 Fourth Adjustment Budget as follows:

- i. The adjustment from R8 194 922 230 to R8 199 414 564 of the BCMM 2021/2022 Operating Revenue Budget.
- ii. The adjustment from R8 192 555 316 to R8 197 047 650 of the BCMM 2021/2022 Operating Expenditure Budget.
- iii. The adjustment from R1 601 553 322 to R1 597 060 989 of the BCMM 2021/2022 Capital Budget.

B. The adjusted budget for BCMDA for the 2021/2022 Fourth Adjustment Budget as follows:

- i. The adjustment from R129 933 084 to R178 638 544 of the BCMDA 2021/22 Operating Revenue Budget.
- ii. The adjustment from R129 933 084 to R178 638 544 of the BCMDA 2021/2022 Operating Expenditure Budget.
- iii. The BCMDA 2021/2022 Capital budget remains unchanged at R1 200 000.

C. The consolidated adjusted budget for the 2021/2022 Fourth Adjustment Budget as follows:

- i. The adjustment from R8 324 855 314 to R8 378 053 108 of the consolidated 2021/22 Operating Revenue Budget.
- ii. The adjustment from R8 322 488 400 to R8 375 686 194 of the consolidated 2021/2022 Operating Expenditure Budget.
- iii. The adjustment from R1 602 753 322 to R1 598 260 989 of the consolidated 2021/2022 Capital Budget.

10. OTHER PARTIES CONSULTED

All Directorates.

11. CITY MANAGER'S QUALITY CERTIFICATE

I **Nceba Ncunyana**, Acting 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 N. NCUNYANA

Acting City Manager of Buffalo City Metropolitan Municipality (BUF)

Signature  _____

Date 17 August 2022