

REPORT TO COUNCIL: 24 AUGUST 2022

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Author: EXECUTIVE MAYOR (XOLA PAKATI)/NN

FIRST ADJUSTMENT BUDGET REPORT FOR THE 2022/2023 FINANCIAL YEAR

1. PURPOSE

The purpose of the report is for Council to consider and approve the first adjustment budget of Buffalo City Metropolitan Municipality for the 2022/2023 financial year.

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."*

Furthermore, the Municipal Budget and Reporting Regulations (MBRR), 2009, (Reg. 23) (5) stipulates the following:

"An adjustments budget referred to in Section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate."

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

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

5. EXPOSITION OF FACTS

The first adjustment budget is being prepared as informed by requests from various directorates for roll-over of own funding and unconditional grants that were unspent at the end of 2021/2022 financial year. At year end on 30 June 2021, various directorates indicated that certain capital projects provided for execution in the 2021/2022 financial year could not be completed. Such under-spending on capital projects could not reasonably have been foreseen at the time of execution and finalisation of 2022/2023 MTREF.

An intensive process of assessing and determining whether the unspent funding that is requested to be rolled over is committed to identifiable projects was undertaken. To enable the completion of these projects, it is necessary to incorporate these projects in the already approved 2022/2023 budget. This process is in line with the legislative requirements of section 28 of the MFMA and Municipal Budget and Reporting Regulations for submitting a municipal rollover budget to Council for adoption.

BCMM has not been achieving the targeted collection rate over the past years due to the challenges caused by the COVID-19 pandemic. The City had to dip into its reserves to cover the low collection rate in order to maintain its operations over this period. For example, in the 2021/2022 financial year, the targeted collection rate was 83.5% and the City achieved a collection rate of 71.39%. Therefore, due to under collection of revenue and low reserves, the budgeted operating expenditure is

being reduced. The budget cuts are being done on items that will not impact service delivery but rather improve operational efficiency. Furthermore, HSDG funded projects that do not have funding agreements will not be allocated a budget in the current financial year.

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	2022/2023		2022/2023	2023/2024	2024/2025
	APPROVED BUDGET	ADJUSTMENTS	FIRST ADJ. BUDGET	FINAL BUDGET	FINAL BUDGET
Total Revenue	8 720 086 374	37 974 429	8 758 060 803	9 212 926 594	9 805 314 105
Total Operating Expenditure Excluding Operating Projects	8 334 281 228	(270 653 492)	8 063 627 736	8 842 442 705	9 456 171 544
Operating Projects	384 575 840	37 974 429	422 550 269	368 066 576	347 389 720
Total Operating Expenditure Including Operating Projects	8 718 857 068	(232 679 063)	8 486 178 005	9 210 509 281	9 803 561 264
Surplus / (Deficit)	1 229 306	270 653 492	271 882 798	2 417 313	1 752 841
Total Capital Expenditure	2 085 222 240	(290 796 343)	1 794 425 897	1 809 952 098	1 287 373 771
Total Opex and Capex Budget	10 804 079 308	(523 475 406)	10 280 603 902	11 020 461 379	11 090 935 035

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

OPERATING AND CAPITAL BUDGET EXPENDITURE	2022/2023		2022/2023	2023/2024	2024/2025
	APPROVED BUDGET	ADJUSTMENTS	FIRST ADJ. BUDGET	FINAL BUDGET	FINAL BUDGET
Total Revenue	8 871 638 755	37 974 429	8 909 613 184	9 308 750 475	9 889 494 271
Total Operating Expenditure Excluding Operating Projects	8 485 833 609	(270 653 492)	8 215 180 117	8 938 266 586	9 540 351 710
Operating Projects	384 575 840	37 974 429	422 550 269	368 066 576	347 389 720
Total Operating Expenditure Including Operating Projects	8 870 409 449	(232 679 063)	8 637 730 386	9 306 333 162	9 887 741 430
Surplus / (Deficit)	1 229 306	270 653 492	271 882 798	2 417 313	1 752 841
Total Capital Expenditure	2 086 362 240	(290 796 343)	1 795 565 897	1 811 183 298	1 288 703 467
Total Opex and Capex Budget	10 956 771 689	(523 475 406)	10 433 296 283	11 117 516 460	11 176 444 897

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	KPA	Key Performance Area

	Management		
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 primary reason for the recommendation to consider and adopt the first adjustment budget during August 2022 emanates from prior year commitment that compels rollovers and re-alignment of budgetary provision. The other reason is to factor reduction in expenditure so as to build reserves for the Metro.

The first adjustment budget is being tabled at Council in terms of the Section 28 (2)(e) of the MFMA and Regulation 23 (5) of the Municipal Budget and Reporting Regulations.

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	2022/2023 APPROVED BUDGET	ADJUSTMENTS	2022/2023 FIRST ADJ. BUDGET	2023/2024 FINAL BUDGET	2024/2025 FINAL BUDGET
Total Revenue	8 871 638 755	37 974 429	8 909 613 184	9 308 750 475	9 889 494 271
Total Operating Expenditure	8 870 409 449	(232 679 063)	8 637 730 386	9 306 333 162	9 887 741 430
Surplus / (Deficit)	1 229 306	270 653 492	271 882 798	2 417 313	1 752 841
Total Capital Expenditure	2 086 362 240	(290 796 343)	1 795 565 897	1 811 183 298	1 288 703 467
Total Opex and Capex Budget	10 956 771 689	(523 475 406)	10 433 296 283	11 117 516 460	11 176 444 897

The following factors were taken into cognisance when formulating the 2022/2023 first adjustment budget:

- a) Those contractual components or works awarded or commenced during the 2021/2022 financial year but not yet completed and settled by 30 June 2022 and therefore no budgetary provision made on the 2022/2023 budget.
- b) Reasons explaining why the 2021/2022 budgetary provisions were committed but not spent by 30 June 2022.
- c) Consideration of roll-over proposals on Council's 2022/2023 operating and capital budget was taken in the context of affordability and funding certainty for the period, and furthermore informed by the adopted 2022/2023 MTREF as well as implementation capacity for the financial period.
- d) Reduction of budgeted expenditure on items that will not impact on service delivery.
- e) HSDG funded projects that do not have funding agreements are not allocated budget in the current financial year.

The City continues to budget for a surplus and produce a funded budget which is in line with National Treasury requirements.

The roll-over of own funded operating projects has the potential of reducing the surplus budgeted in the original approved budget and may even drive it into a deficit. To avoid the above, the roll-over of own funded operating projects was not considered in this adjustment budget as there are no savings realised in the 2022/2023 financial year budget that could be used to fund such roll-overs. The net effect of the consolidated Metro's budget after first adjustment is a surplus of R 271 882 798 before capital transfers recognised.

5.2 COUNCIL RESOLUTIONS

On 31 May 2022 the Council of Buffalo City Metropolitan Municipality met to consider, approve and adopt the 2022/2023 MTREF 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 2022/2023 First Adjustment Budget as follows:
- i. The adjustment from R8 720 086 374 to R8 758 060 803 of the BCMM 2022/2023 Operating Revenue Budget.
 - ii. The adjustment from R8 718 857 068 to R 8 486 178 005 of the BCMM 2022/2023 Operating Expenditure Budget.
 - iii. The adjustment from R2 085 222 240 to R1 794 425 897 of the BCMM 2022/2023 Capital Budget.
- B. The consolidated adjusted budget for the 2022/2023 First Adjustment Budget as follows:
- i. The adjustment from R8 871 638 755 to R8 909 613 184 of the consolidated 2022/2023 Operating Revenue Budget.
 - ii. The adjustment from R8 870 409 449 to R8 637 730 386 of the consolidated 2022/2023 Operating Expenditure Budget.
 - iii. The adjustment from R2 086 362 240 to R1 795 565 897 of the consolidated 2022/2023 Capital Budget.
- C. Council **NOTE** that, in order to improve operational efficiency, the detailed consolidated schedules of capital projects and operating 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. A. PAKATI

X. A. PAKATI
EXECUTIVE MAYOR

17/08/2022

DATE

ANNEXURES:

- Annexure 1: Detailed Schedule of Operating Projects (Rolled-up)
- Annexure 1.1: Detailed Schedule of Operating Projects
- Annexure 2: Detailed Schedule of Capital Projects (Rolled-up)
- Annexure 2.1: Detailed Schedule of Capital Projects
- Annexure 3: National Treasury B Schedules (Parent Municipality)
- Annexure 4: National Treasury B – Consolidated Schedules

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 budgeting including this first adjustment budget. This approach involved an intensive internal process of assessing and determining whether the unspent funding that is requested to be rolled over is committed to identifiable projects. This process is in line with the process followed by National Treasury for approval of conditional grants roll-overs.

The consolidated operating revenue budget has been increased by R37 974 429 from R8 871 638 755 to R8 909 613 184. The consolidated operating expenditure budget has reduced by R232 679 063 from R8 870 409 449 to R8 637 730 386.

The reasons for the increase and decrease are detailed in section 5.4 and 5.5 of the report. The consolidated overall operating surplus before capital transfers recognised is increasing to R271 882 798.

The consolidated capital expenditure budget is reducing by R 290 796 343 from R2 086 362 240 to R 1 795 565 897. These are detailed in section 5.6 of the report.

5.3.1 Budget Adjustment Summary

The reasons for this adjustment budget are the following:

- i. To roll-over budget that was unspent in the 2021/2022 financial year but committed to identifiable projects for own funding and unconditional grants.
- ii. To reduce the budgeted expenditure in an effort to build the Metro's reserves.
- iii. To reduce budget allocated to HSDG projects in the current financial year to only those projects that have a funding agreement.

The table below indicates the summary of the 2022/2023 consolidated first adjustment budget.

Table 2: 2022/2023 Consolidated First Adjustment Budget Summary

OPERATING AND CAPITAL BUDGET EXPENDITURE	2022/2023		2022/2023	2023/2024	2024/2025
	APPROVED BUDGET	ADJUSTMENTS	FIRST ADJ. BUDGET	FINAL BUDGET	FINAL BUDGET
Total Revenue	8 871 638 755	37 974 429	8 909 613 184	9 308 750 475	9 889 494 271
Total Operating Expenditure Excluding Operating Projects	8 485 833 609	(270 653 492)	8 215 180 117	8 938 266 586	9 540 351 710
Operating Projects	384 575 840	37 974 429	422 550 269	368 066 576	347 389 720
Total Operating Expenditure Including Operating Projects	8 870 409 449	(232 679 063)	8 637 730 386	9 306 333 162	9 887 741 430
Surplus / (Deficit)	1 229 306	270 653 492	271 882 798	2 417 313	1 752 841
Total Capital Expenditure	2 086 362 240	(290 796 343)	1 795 565 897	1 811 183 298	1 288 703 467
Total Opex and Capex Budget	10 956 771 689	(523 475 406)	10 433 296 283	11 117 516 460	11 176 444 897

5.4 OPERATING REVENUE FRAMEWORK

The following table depicts an upward adjustment to the consolidated operating revenue budget per source totalling to R37 974 429. This amount of R37 974 429 on transfers and subsidies is made-up of the following adjustments:

- a) An increase of R189 775 resulting from the rollover of unspent unconditional grant (Salaida) from the 2021/2022 financial year.

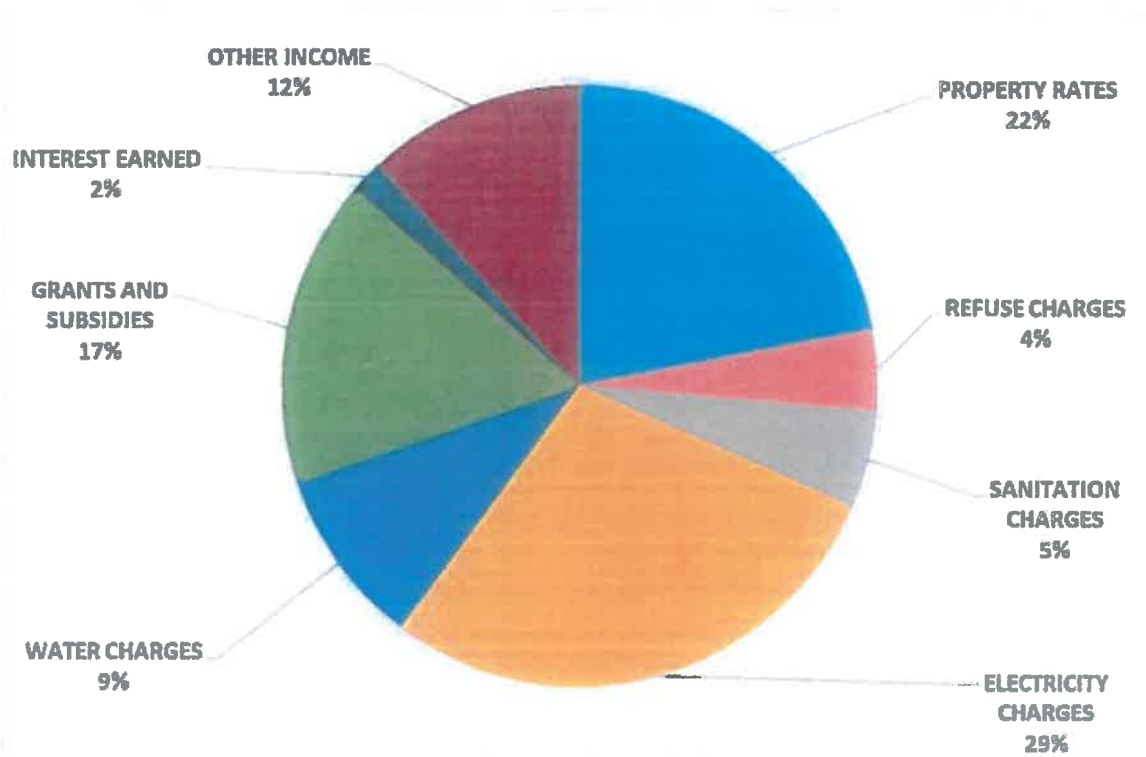
- b) An increase of R96 707 045 resulting from the rollover of unspent grant (Human Settlement Development Grant) from the 2021/2022 financial year.
- c) A reduction of R58 503 390 resulting from the removal of budget for Human Settlement Development Grant (HSDG) funded projects with no funding agreements.
- d) A reduction of R419 000 to the NDPG grant to align the budget with the Gazetted DoRA allocation.

Table 3: 2022/2023 First Adjusted Revenue per Source

2022/2023 FIRST ADJUSTMENT BUDGET REVENUE & EXPENDITURE FRAMEWORK	2022/2023 APPROVED BUDGET	ADJUSTMENTS	2022/2023 FIRST ADJUSTMENT BUDGET	2022/2023 BUDGET	2023/2024 BUDGET
Revenue by Source					
Property rates	1 958 216 274	0	1 958 216 274	2 044 377 790	2 136 374 791
Service charges - electricity revenue	2 549 551 640	0	2 549 551 640	2 765 498 664	3 014 393 544
Service charges - water revenue	849 617 204	0	849 617 204	915 674 942	998 085 687
Service charges - sanitation revenue	468 519 095	0	468 519 095	489 133 935	511 144 962
Service charges - refuse revenue	385 615 557	0	385 615 557	402 582 642	420 698 861
Rental of facilities and equipment	21 965 204	0	21 965 204	22 931 673	23 963 598
Interest earned - external investments	30 876 217	0	30 876 217	31 206 105	31 504 740
Interest earned - outstanding debtors	121 249 047	0	121 249 047	126 584 006	132 280 286
Dividends received	0	0	0	0	0
Fines, penalties and forfeits	22 434 938	0	22 434 938	23 422 076	24 476 069
Licences and permits	19 738 683	0	19 738 683	20 607 185	21 534 508
Agency services	44 713 050	0	44 713 050	44 186 625	44 670 224
Transfers and subsidies - Operating	1 446 763 267	37 974 429	1 484 737 696	1 437 067 216	1 478 209 732
Other revenue	952 378 579	0	952 378 579	985 477 616	1 052 157 269
Total Direct Operating Revenue	8 871 638 755	37 974 429	8 909 613 184	9 308 750 475	9 889 494 271

The figure below provides a split of consolidated operating revenue budget per source. In terms of revenue services, electricity continues to be the main contributor to the revenue of the municipality by generating 29% of the total revenue. This is followed by water tariffs at 9%, sanitation tariff at 5% and refuse tariff at 4%. The implementation of valuations roll continues to have a positive impact on the property rates revenue which totals 22% of the total municipal revenue. The municipality receives grants and subsidies totalling 17% of the total revenue. Other revenue contributes 12% and interest earned 2% of the total revenue.

Figure 1: Operating Revenue per Source



5.5 OPERATING EXPENDITURE FRAMEWORK

The following table depicts a downward adjustment to the consolidated operating budget per expenditure type totalling to R232 063 584. This amount of R232 679 063 is made-up of the following adjustments:

- a) Employee related costs: Reducing by R81 809 971
 - i. An increase of R2 600 000 to employee related costs. This adjustment is due to a difference of 0.1% between the percentage increase of 4.9% as per SALGA Circular and 4.8% as per NT Circular which was implemented in the Approved budget.
 - ii. A reduction of R84 409 971 to the employee related costs budget. Monthly review to be done on vacant funded posts. This reduction does not include the budget for vacant funded strategic positions.

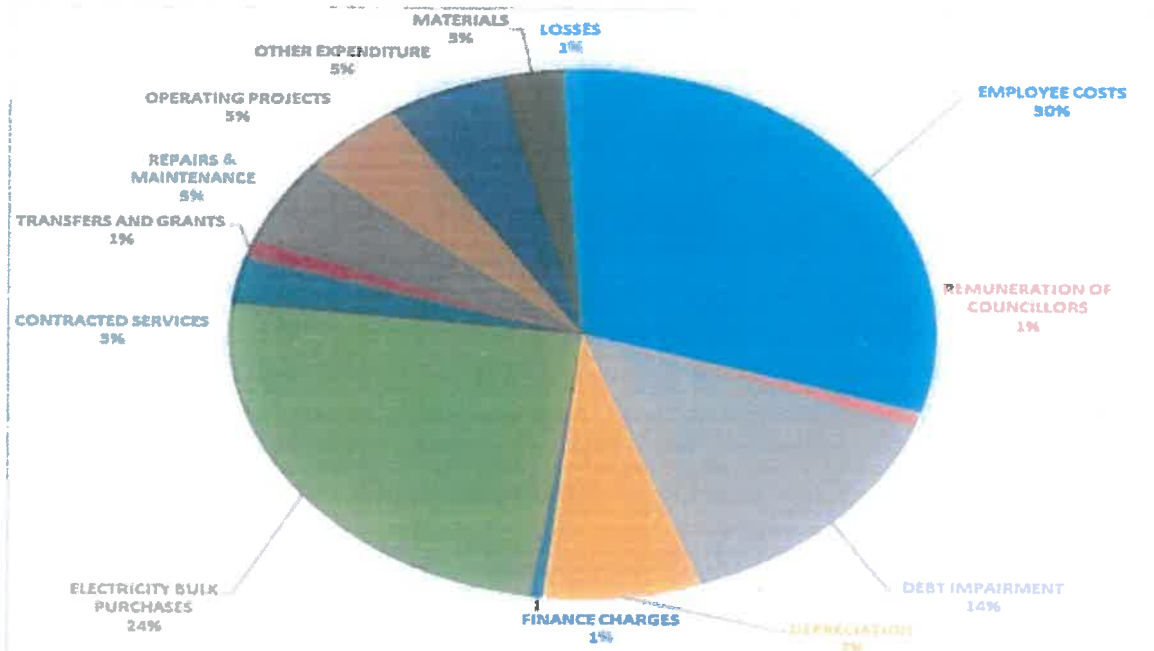
- b) Due to efforts of building up reserves and having a sustainable financial position for the Metro, a downward adjustment of R188 843 521 to be implemented on the following expenditure types;
- i. Bulk purchases are to be reduced by R40 000 000. This adjustment is informed by previous year's trend.
 - ii. Contracted services are reducing by R49 530 367.
 - iii. Other Expenditure is reducing by R45 616 423.
 - iv. Other Materials is reducing by R53 696 731.
- c) Operating Projects: Increasing by R37 974 429 from the following adjustments:
- i. Rollover amount of R189 775 of the Salaida grant;
 - ii. Additional budget of R96 707 045 from rollover of the Human Settlements Development Grant;
 - iii. Reduction of R58 503 390 from Human Settlements Development Grant funded projects that have been removed due not having funding agreements;
 - iv. A reduction of R419 000 to the NDPG grant to align the funding to the correspondence received from National Treasury.

Table 4: 2022/2023 First Adjusted Expenditure Budget per Category

2022/2023 FIRST ADJUSTMENT BUDGET EXPENDITURE FRAMEWORK	2022/2023 APPROVED BUDGET	ADJUSTMENTS	2022/2023 FIRST ADJUSTMENT BUDGET	2023/2024 BUDGET	2024/2025 BUDGET
Expenditure Per Category					
Employee related costs	2 650 375 589	(81 809 971)	2 568 565 618	2 768 323 825	2 892 916 207
Remuneration of councillors	70 262 860	0	70 262 860	73 354 428	76 655 375
Debt impairment	1 211 246 355	0	1 211 246 355	1 290 367 255	1 380 736 080
Depreciation & asset impairment	614 396 599	0	614 396 599	643 944 599	734 977 445
Finance charges	49 360 667	0	49 360 667	153 640 082	161 565 195
Electricity Bulk Purchases	2 160 427 121	(40 000 000)	2 120 427 121	2 343 415 298	2 554 322 674
Contracted services	292 548 012	(49 530 367)	243 017 645	234 716 399	222 641 734
Transfers and grants	104 645 216	0	104 645 216	75 344 011	78 733 662
Repairs and Maintenance	446 129 919	0	446 129 919	450 592 946	470 869 332
Operating projects	384 575 840	37 974 429	422 550 269	368 086 576	347 389 720
Other expenditure	506 973 655	(45 616 423)	461 357 232	506 550 064	538 407 878
Losses	82 136 093	0	82 136 093	87 700 814	95 593 887
Other materials	297 331 523	(53 696 731)	243 634 792	310 316 867	332 932 241
Total Operating Expenditure	8 870 409 449	(232 679 063)	8 637 730 386	9 306 333 162	9 887 741 430

The figure below gives the split of consolidated operating expenditure budget per category. Employee costs represent the largest cost of the municipality and totals 30% of the total operating expenditure. Bulk Purchases for Electricity represents 24% of the total costs. Other Expenditure contribute 5% of total operating expenditure. Depreciation totals 7% of the total cost base for the institution. This represents the proportional funding requirements for the replacement of existing infrastructure assets. Repairs and Maintenance and Operating projects both account for 5% of the total operating budget. Debt impairment account for 14%. Contracted Services and Other materials are both 3% of the total operating budget respectively. Remuneration of Councillors, Finance Charges, Losses and Transfers and Grants each account for 1% of the total expenditure.

Figure 2: 2022/2023 Operating Expenditure per Type



5.5.1 First Adjustment Budget 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 R37 974 429 to the operating projects budget due to the following adjustments:

a) Executive Support Services:

-Rollover amount of R189 775 of the Salaida grant for the following projects:

- i. Nahoon Point Reserve;
- ii. Nahoon Estuary Reserve;
- iii. Gender Project (Homestay);
- iv. Management & Coordination

b) Directorate of Economic Developments & Agencies:

1. A reduction of R419 000 to the NDPG grant to align to the Gazetted DoRA allocation.
2. A reallocation of R2 671 714 of NDPG funding to Directorate of Solid Waste, Environmental & Health Management to align to business plans of the NDPG Public Employment Programme.

c) Directorate of Human Settlements:

1. Additional budget of R96 707 045 from rollover of the Human Settlements Development Grant for the following projects:

- i. Potsdam Village Phase 1 & 2: R21 174 956
- ii. Cluster 1 p5: R15 000 000
- iii. Cluster 2 p5: R1 972 460
- iv. Cluster 3 p5 - R3 000 000
- v. East London Fynbos – R4 678 357
- vi. East London Ndancama – R5 074 828
- vii. Peelson Phase 2 - R13 786 546
- viii. KWT Peelson – R10 137 748
- ix. Potsdam Ikhwezi B1 –R9 417 380
- x. Cambridge West (CNIP Victims)- R100 000
- xi. EL DVRI Duncan Village - R12 364 771

2. Reduction of R58 503 390 from Human Settlements Development Grant funded projects that have been removed in the current financial year due to not having funding agreements:

- i. C Section & Triangular Site: R500 000
- ii. Amalinda Military Veterans: R3 900 000
- iii. D Hostel: R1 500 000
- iv. DV Proper: R2 000 000
- v. DVRI Pilot Project: R5 000 000
- vi. Ford Msimango: R500 000

- vii. Hanover: R2 500 000
- viii. Ilitha North: R4 000 000
- ix. Mdantsane Zone cc: R9 000 000
- x. N2 Road Reserve: R500 000
- xi. Potsdam Ikhwezi B2: R600 000
- xii. Potsdam North Kanana: R5 000 000
- xiii. Reeston Phase 3 Stage 2: R2 000 000
- xiv. Reeston Phase 3 Stage 5: R3 200 000
- xv. Skobeni: R2 000 000
- xvi. Tyutyu Phase 3: R2 100 000
- xvii. Haven Hills and Mekeni Defective units: R200 000
- xviii. Storm Damaged Houses in Rural areas: R2 000 000
- xix. Dimbaza Shutterhouses: R1 000 000
- xx. ERF271 Summerpride: R1 500 000
- xxi. Westbank Restitution: R5 000 000
- xxii. East Bank: R500 000
- xxiii. Nelson Mandela: R1 000 000
- xxiv. Majarantiyeni: R3 003 390

d) Directorate of Solid waste, Environmental & Health Management:

- i. A reallocation of R2 671 714 of NDPG funding from the Directorate of Economic Development & Agencies to align to business plans of the NDPG Public Employment Programme.

Table 5: 2022/2023 Operating Projects Per Funding Source First Adjustment Budget

FUNDING SOURCE	2022/2023 APPROVED OPEX BUDGET	ADJUSTMENTS	2022/2023 ROLL- OVERS OPEX BUDGET	2023/2024 APPROVED OPEX BUDGET	2024/2025 APPROVED OPEX BUDGET
OWN FUNDING	163 215 180	0	163 215 180	139 371 876	136 586 748
TOTAL OWN FUNDING	163 215 180	0	163 215 180	139 371 876	136 586 748
URBAN SETTLEMENT DEVELOPMENT GRANT	44 784 980	0	44 784 980	65 441 020	66 238 173
FINANCE MANAGEMENT GRANT	1 000 000	0	1 000 000	1 000 000	1 000 000
INFORMAL SETTLEMENTS UPGRADING PARTNERSHIP GRANT	18 358 680	0	18 358 680	14 907 680	16 167 799
INFRASTRUCTURE SKILLS DEVELOPMENT GRANT	11 600 000	0	11 600 000	11 850 000	13 350 000
PROGRAMME AND PROJECT PREPARATION SUPPORT GRANT (PPPSG)	13 776 000	0	13 776 000	14 383 000	13 934 000
SALAIDA C/O	0	189 775	189 775	0	0
EXPANDED PUBLIC WORKS PROGRAMME	10 728 000	0	10 728 000	0	0
HUMAN SETTLEMENTS DEVELOPMENT GRANT	100 113 000	(58 503 390)	41 609 610	100 113 000	100 113 000
HUMAN SETTLEMENTS DEVELOPMENT GRANT C/O	0	96 707 045	96 707 045	0	0
NEIGHBOURHOOD DEVELOPMENT PARTNERSHIP GRANT	21 000 000	(419 000)	20 581 000	21 000 000	0
TOTAL GRANTS	221 360 660	37 974 429	259 335 089	228 694 700	210 802 972
TOTAL OPERATING PROJECTS BUDGET	384 575 840	37 974 429	422 550 269	368 066 576	347 389 720

Table 6: 2022/2023 Operating Projects Adjustments Per Directorate

DIRECTORATE	2022/2023 APPROVED OPEX BUDGET	ADJUSTMENTS	2022/2023 ROLL- OVERS OPEX BUDGET	2023/2024 APPROVED OPEX BUDGET	2024/2025 APPROVED OPEX BUDGET
EXECUTIVE SUPPORT SERVICES	52 724 205	189 775	52 913 980	52 577 160	52 693 132
CITY MANAGER'S OFFICE	45 163 200	0	45 163 200	40 807 302	41 367 089
CORPORATE SERVICES	12 600 000	0	12 600 000	18 350 000	14 350 000
SPATIAL PLANNING & DEVELOPMENT	11 572 000	0	11 572 000	8 571 000	11 934 249
ECONOMIC DEVELOPMENT & AGENCIES	16 374 522	(3 090 714)	13 283 808	29 150 000	17 150 000
FINANCE SERVICES	52 792 800	0	52 792 800	26 424 336	16 464 700
PUBLIC SAFETY & EMERGENCY SERVICES	5 771 256	0	5 771 256	0	0
HUMAN SETTLEMENTS	114 949 680	38 203 655	153 153 335	109 449 680	109 846 550
INFRASTRUCTURE SERVICES	42 968 000	0	42 968 000	61 579 098	61 134 000
SPORTS, RECREATION & COMMUNITY DEVELOPMENT	2 910 177	0	2 910 177	1 300 000	1 800 000
SOLID WASTE, ENVIRONMENTAL & HEALTH MANAGEMENT	26 750 000	2 671 714	29 421 714	19 858 000	20 650 000
TOTAL OPERATING PROJECTS	384 575 840	37 974 429	422 550 269	368 066 576	347 389 720

In order to improve operational efficiency, the detailed schedule of operating projects that is attached as **Annexure 1** has been rolled up to the project level to allow budget transfers between votes/account numbers that make up that particular project to be managed at administrative level rather than being treated as a virement or an adjustment budget. **Annexure 1.1** has also been attached for information only, it contains the detailed mSCOA breakdown of the rolled-up operating projects.

5.6 CAPITAL EXPENDITURE FRAMEWORK

The tables (table 7 and 8) below indicate adjustments to the consolidated capital expenditure budget per funding source and per directorate respectively. It shows a total reduction of R290 796 343.

In order to improve operational efficiency, the detailed schedule of capital projects that is attached as **Annexure 2** of this report has been rolled up to the project level to allow budget transfers between votes/account numbers that make up that particular project to be managed at administrative level rather than being treated as a virement or an adjustment budget. **Annexure 2.1** has also been attached for information only, it contains the detailed mSCOA breakdown of the rolled-up capital projects. The following summarises the identifiable projects on which the requested roll-over funding is committed:

Summary of Capital Projects Adjustments:

5.6.1 Own Funding: Reducing by R49 404 837

- i. Directorate of Finance – funds reducing by R22 987 664:
 - a. A reduction of R5 644 453 to Smart Metering Electricity reallocated to the Settlers Way roads project.
 - b. A reduction of R19 214 932 to Smart Metering Water Solutions project reallocated to the Settlers Way roads project.

- c. An increase of R1 871 721 to Acquire ERP system reallocated from the Settler's Way roads project.
 - ii. Directorate of Economic Development & Agencies– funds reducing by R3 000 000:
 - a. A reduction of R500 000 to Installation of Adventure Activities.
 - b. A reduction of R800 000 to Film Studio Development.
 - c. A reduction of R700 000 to Water Leisure Activities.
 - d. A reduction of R1 000 000 to Installation of Recreational Activities.
 - iii. Directorate of Infrastructure – funds increasing by R22 987 664:
 - a. An increase of R22 987 664 to Settler's way roads project, R5 644 453 reallocated from Smart Metering Electricity Solutions, R19 214 932 reallocated from Smart Metering Water Solutions and R1 871 721 reallocated to Acquire ERP system
 - iv. Buffalo City Metropolitan Development Agency (BCMDA) – A reduction of R49 404 837 to budget allocated in the 2022/2023 financial year for the Court Crescent Recreational Park & Water World Fun Park. This is to ensure that contract value of these projects is not exceeded.

5.6.2 Loan Funding: Reducing by R333 090 380

- i. Directorate of Finance – Loan funding reducing by R163 090 380:
 - a. A reduction of R86 521 140 to Smart Metering Electricity Solutions.
 - b. A reduction of R76 569 240 to Smart Metering Water Solutions.

- ii. Directorate of Infrastructure – Loan funds reducing by R170 000 000:
 - a. A reduction of R120 000 000 to Upgrading of Zwelitsha Wastewater Treatment works.
 - b. A reduction of R50 000 000 to Umzonyana Dam & East Coast Water Supply Upgrade.

5.6.3 Own Funding carry over: Increasing R91 698 874

- i. Directorate of Executive Support Services – committed funds amounting to R700 300 to be rolled over:
 - a. A budget amounting to R700 300 for Replacement of Council Chamber horseshoe leather chairs and tables.
- ii. Directorate of Corporate Services – committed funds amounting to R11 674 058 to be rolled over:
 - a. A budget amounting to R481 250 for Office Furniture and Equipment;
 - b. A budget amounting to R624 073 for Scanners;
 - c. A budget amounting to R2 989 875 for Employee Performance Management System;
 - d. A budget amounting to R936 757 for Disaster Recovery Enhancement;
 - e. A budget amounting to R1 870 512 for Intelligent Operating Centre Hardware & Software.
 - f. A budget amounting to R364 420 for Fibre Network.
 - g. A budget amounting to R1 089 771 for LTE Infrastructure;
 - h. A budget amounting to R817 400 for Network Equipment Refresh (KWT, Mdantsane, Bhisho);

- i. A budget amounting to R550 748 for Revitalisation of Industrial areas;
 - j. A budget amounting to R500 000 for Upgrading of Cold Rooms;
 - k. A budget amounting to R380 627 for Upgrading of Market Hall.
- v. Directorate of Finance – committed funds amounting to R11 553 804 to be rolled over:
- a. A budget amounting to R3 361 345 for Smart Metering Solutions (Electricity).
 - b. A budget amounting to R1 859 134 for Alterations of Zone 11 Building.
 - c. A budget amounting to R3 185 524 for Construction of Office Accommodation -Customer Care Office-Midland;
 - d. A budget amounting to R647 801 for Meter Reading System.
 - e. A budget amounting to R2 500 000 for Indigent Management System.
- vi. Directorate Public Safety and Emergency Service – committed funds amounting to R21 905 314 to be rolled over:
- a. A budget amounting to R513 154 for Office Furniture & Equipment (Directorate).
 - b. A budget amounting to R12 608 347 for Fire Engines Procured.
 - c. A budget amounting to R850 000 for Refurbishment of Fire Engines.
 - d. A budget amounting to R8 169 for Tactical Radio Network.
 - e. A budget amounting to R3 000 000 for Specialised Vehicles Public Safety.

- f. A budget amounting to R1 214 960 for Refurbishment of Fire Stations.
 - g. A budget amounting to R1 500 000 for Backup Generators.
 - h. A budget amounting to R39 399 for Refurbishment & Rehabilitation of Fire Infrastructure.
 - i. A budget amounting to R1 392 108 for New Fire Station-Berlin Ward 45.
 - j. A budget amounting to R779 176 for Traffic & Law Enforcement Equipment.
- vii. Directorate of Infrastructure Services – committed funds amounting to R3 631 981 to be rolled over:
- a. A budget amounting to R1 344 764 for Pipe & Water Meter replacement in Bhisho, KWT & Dimbaza.
 - b. A budget amounting to R2 287 217 for BCMM Fleet Plant.
- viii. Directorate of Sports, Recreation & Community Development – committed funds amounting to R6 919 291 to be rolled over:
- a. A budget amounting to R8 290 for Purchase of Furniture for Chalets.
 - b. A budget amounting to R27 049 for Office Furniture & Equipment.
 - c. A budget amounting to R140 615 for Construction of Office and Guard House Nahoon Caravan Park.
 - d. A budget amounting to R32 537 for Installation of Security alarms in 20 Chalets.
 - e. A budget amounting to R86 094 for Upgrading of Zoo.
 - f. A budget amounting to R29 213 for Plant –Swimming pool.
 - g. A budget amounting to R6 296 738 for Redevelopment of Mdantsane Sport Precinct - Nu2 Swimming Pool.

Table 7: 2022/2023 Capital Budget Adjustment Per Funding

CAPITAL BUDGET PER FUNDING	2022/2023 APPROVED CAPITAL BUDGET	ADJUSTMENTS	2022/2023 ROLL - OVERS CAPITAL BUDGET	2023/2024 APPROVED CAPITAL BUDGET	2024/2025 APPROVED CAPITAL BUDGET
OWN FUNDING	618 872 520	(49 404 837)	569 467 683	436 715 618	351 875 438
OWN FUNDING C/O	0	91 698 874	91 698 874	0	0
LOAN	732 614 380	(333 090 380)	399 524 000	622 495 380	140 000 000
TOTAL OWN FUNDING	1 351 486 900	(290 796 343)	1 060 690 557	1 059 210 998	491 875 438
URBAN SETTLEMENT DEVELOPMENT GRANT	451 381 020	0	451 381 020	452 592 980	475 060 828
INFORMAL SETTLEMENTS UPGRADING PARTNERSHIP GRANT	263 763 320	0	263 763 320	279 648 320	291 617 201
NEIGHBOURHOOD DEVELOPMENT PARTNERSHIP GRANT	19 581 000	0	19 581 000	19 581 000	30 000 000
INFRASTRUCTURE SKILLS DEVELOPMENT GRANT	150 000	0	150 000	150 000	150 000
TOTAL GRANTS	734 875 340	0	734 875 340	751 972 300	796 828 029
TOTAL CAPITAL BUDGET	2 086 362 240	(290 796 343)	1 795 565 897	1 811 183 298	1 288 703 467

Table 8: 2022/2023 Capital Budget Adjustments per Directorate

CAPITAL BUDGET PER DIRECTORATE	2022/2023 APPROVED CAPITAL BUDGET	ADJUSTMENTS	2022/2023 ROLL - OVERS CAPITAL BUDGET	2023/2024 APPROVED CAPITAL BUDGET	2024/2025 APPROVED CAPITAL BUDGET
EXECUTIVE SUPPORT SERVICES	500 000	700 300	1 200 300	500 000	500 000
CITY MANAGER'S OFFICE	600 000	0	600 000	600 000	500 000
CORPORATE SERVICES	4 979 959	11 674 058	16 654 017	4 650 000	11 650 000
SPATIAL PLANNING & DEVELOPMENT	105 340 632	4 258 155	109 598 787	131 616 510	83 457 810
ECONOMIC DEVELOPMENT & AGENCIES	56 460 848	15 655 574	72 116 422	61 100 000	43 138 554
FINANCE SERVICES	250 714 280	(174 524 240)	76 190 041	235 028 490	13 500 000
PUBLIC SAFETY & EMERGENCY SERVICES	22 900 000	21 905 314	44 805 314	27 187 900	15 500 000
HUMAN SETTLEMENTS	235 992 070	0	235 992 070	309 298 320	262 944 032
INFRASTRUCTURE SERVICES	1 274 245 390	(143 380 355)	1 130 865 035	937 320 878	741 613 375
SPORTS, RECREATION & COMMUNITY DEVELOPMENT	47 870 000	6 919 291	54 789 291	42 650 000	37 000 000
SOLID WASTE, ENVIRONMENTAL & HEALTH MANAGEMENT	38 518 987	12 400 397	50 919 384	42 000 000	77 570 000
TOTAL CAPITAL BUDGET: BCMM	2 038 122 166	(244 391 506)	1 793 730 660	1 791 952 098	1 287 373 771
BCMDA	48 240 074	(46 404 837)	1 835 237	19 231 200	1 329 696
TOTAL CAPITAL: CONSOLIDATED	2 086 362 240	(290 796 343)	1 795 565 897	1 811 183 298	1 288 703 467

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 adjustments to allocations or grants made by the municipality.

6.3 ADJUSTMENTS TO SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

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 roll-overs for projects that are already in the IDP and SDBIP and therefore it has not been necessary to revise these documents. A mid-year performance assessment will be done later in the financial year to inform the revision of the approved SDBIP.

7. CHALLENGES

None.

8. STAFF IMPLICATIONS

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

9. FINANCIAL IMPLICATIONS

The first adjustments to the consolidated 2022/2023 budget do not have an impact on tariffs. The effects of the adjustments to the consolidated 2022/2023 Operating and Capital Budget are outlined below:

A. The adjusted budget of the Parent municipality (BCMM) for the 2022/2023 First Adjustment Budget as follows:

- i. The adjustment from R8 720 086 374 to R8 758 060 803 of the BCMM 2022/2023 Operating Revenue Budget.
- ii. The adjustment from R8 718 857 068 to R 8 486 178 005 of the BCMM 2022/2023 Operating Expenditure Budget.
- iii. The adjustment from R2 085 222 240 to R1 794 425 897 of the BCMM 2022/2023 Capital Budget.

B. The consolidated adjusted budget for the 2022/2023 First Adjustment Budget as follows:

- iv. The adjustment from R8 871 638 755 to R8 909 613 184 of the consolidated 2022/2023 Operating Revenue Budget.
- v. The adjustment from R8 870 409 449 to R8 637 730 386 of the consolidated 2022/2023 Operating Expenditure Budget.
- vi. The adjustment from R2 086 362 240 to R1 795 565 897 of the consolidated 2022/2023 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