

**REPORT TO COUNCIL: 29 JANUARY 2019**

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**UNAUTHORISED EXPENDITURE ADJUSTMENT BUDGET REPORT FOR THE  
2017/2018 FINANCIAL YEAR**

**1. PURPOSE**

The purpose of the report is for the Council to consider and approve the unauthorised expenditure adjustment budget of Buffalo City Metropolitan Municipality for the 2017/18 financial year as reported and disclosed in the 2017/18 Audited Annual Financial Statements.

**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

Municipal Budget and Reporting Regulations, 2009

**4. BACKGROUND**

Unauthorised expenditure is defined in section 1 of the MFMA as follows:

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes —

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;

- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

In terms of regulation 23(6)(b) of the MBRR, council may authorise unauthorised expenditure in a special adjustments budget tabled in council when the mayor tables the annual report in terms of section 127(2) of the MFMA. This special adjustments budget “may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2) (a) (i) of the Act.” This special adjustments budget therefore deals with:

- i. unauthorised expenditure that occurred in the second half of the previous financial year (2016/17), and
- ii. any unauthorised expenditure identified by the Auditor-General during the annual audit process.

According to the Municipal Budget and Reporting Regulations (MBRR), 2009, (Reg. 21)

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

This report follows the legislative requirements of the Municipal Budget and Reporting Regulations (Schedule B format).

## 5. EXPOSITION OF FACTS

Unauthorised expenditure was disclosed as legislatively required in terms of GRAP 16 in the Annual Financial Statements (AFS) and was due to overspending on the appropriated amounts of some of the expenditure types in the approved budget.

The main contributor to the unauthorised expenditure is Debt impairment with an unauthorised expenditure of R135,456,598. During the preparation and submission of the unaudited AFS, an amount of R40,055,769 was disclosed as unauthorised expenditure. During the audit it transpired that the amount disclosed for Debt impairment was understated by R122,330,545 and as a result an audit adjustment to Debt impairment had to be passed. This resulted in the unauthorised expenditure increasing from R40,055,769 to R160,458,700.

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

**Table 1: Unauthorised expenditure disclosed in 2017/18 AFS**

<b>UNAUTHORISED EXPENDITURE</b>	<b>2017/2018</b>	<b>2016/2017</b>
	<b>R</b>	<b>R</b>
Opening balance	95 876 117	21 985 787
Expenditure condoned by Council in terms of section 32 of the MFMA.	(95 876 117)	(21 985 787)
Unauthorised expenditure for the year	160 458 700	95 876 117
<b>Closing balance</b>	<b>160 458 700</b>	<b>95 876 117</b>

## **5.1 REASONS FOR UNAUTHORISED EXPENDITURE**

The unauthorised expenditure incurred has been as a result of over spending of the total amount appropriated to the following expenditure categories:

- a) Employee Related Costs – R2,286,887: This unauthorised amount results from overtime.
- b) Debt impairment – R135,456,598: This unauthorised amount results from more debts written off than projected.
- c) Depreciation and Amortisation - R17,325,629: Infrastructure assets were revalued at the end of the financial year in accordance with the accounting policy adopted by BCMM. The revaluation brought about additional depreciation.
- d) Other Materials – R573,224: This unauthorised expenditure is a result of inventory write-offs of stock items damaged during the year.
- e) General / Other Expenditure – R2,317,001: This unauthorised expenditure is a result of misalignment between budget and actual figures.
- f) Loss on disposal of PPE – R2,499,363: This results from assets that were disposed of at an amount that is less than the book value. The disposal process was done through auction as per the MFMA requirement.

As reflected in the above explanations, the unauthorised expenditure was not caused by negligence on the actions of any personnel. It is due to the technical nature of the accounting treatment involved.

**Table 2: Breakdown of the 2017/18 unauthorised expenditure per Type**

Description	Original Budget	Budget Adjustments (i.t.o. MFMA s28)	Final adjustments budget	Actual Outcome as per Venus	Unauthorised expenditure
<b>Expenditure By Type</b>					
Employee related costs	1 733 321 386	88 255 070	1 821 576 456	1 823 863 343	(2 286 887)
Remuneration of councillors	62 398 115	(2 925 072)	59 473 043	59 473 020	
Debt impairment	317 788 481	(142 860 044)	174 928 437	310 385 035	(135 456 598)
Depreciation and asset impairment	778 272 580	196 462 862	974 735 442	992 061 071	(17 325 629)
Finance charges	54 318 230	(10 363 121)	43 955 109	43 954 779	
Bulk purchases	1 578 166 510	(22 863 000)	1 555 303 510	1 552 488 423	
Other materials	-	82 735 803	82 735 803	83 309 027	(573 224)
Contracted services	38 959 973	667 862 591	706 822 564	678 034 553	
Transfers and subsidies	328 636 857	(252 232 932)	76 403 925	62 059 531	
Other expenditure	1 296 217 692	(847 796 694)	448 420 998	450 737 999	(2 317 001)
Loss on disposal of PPE	-	-	-	2 499 363	(2 499 363)
<b>Total Expenditure by Vote</b>	<b>6 188 079 824</b>	<b>(243 724 537)</b>	<b>5 944 355 287</b>	<b>6 058 866 143</b>	<b>(160 458 700)</b>

The net unauthorised expenditure of R160,458,700 for 2017/18 as set out in table 2 above is as a result of overspending on Employee Related Costs (R2,286,887), Debt impairment (R135,456,598), Depreciation and asset impairment (R17,325,629), Other Materials (573,224), Other Expenditure (R2,317,001) and Loss on disposal of PPE (R2,499,363).

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## ABBREVIATIONS AND ACRONYMS

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



## PART 1 – ADJUSTMENT BUDGET

### 5.2 EXECUTIVE MAYOR’S REPORT

The unauthorised budget adjustment is being prepared as informed by the 2017/18 audited Annual Financial Statements (AFS) and in terms of the Municipal Finance Management Act (MFMA), and the Municipal Budget and Reporting Regulations (MBRR).

The main reason for this adjustment budget is the over spending on some of the expenditure types in the municipality’s approved budget. This adjustment budget report covers the 2017/18 financial year.

Table 3 below provides a high-level summary of the Operating and Capital Budget adjustments for the 2017/18 financial year. The table also indicates that there has been no change in the overall total budget for the operating revenue as no extra revenue was realised. It also reflects that there is no change in the overall total capital budget. The operating expenditure budget has been increased by R143,443,444 to fund the unauthorised expenditure.

**Table 3: High-level summary of the 2017/18 Operating and Capital Budget Adjustment**

OPERATING AND CAPITAL BUDGET EXPENDITURE	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b>Total Revenue</b>	(6 189 006 311)	(6 189 945 583)	(5 937 023 597)	(5 941 823 597)	(5 945 281 757)	0	(5 945 281 757)
<b>Total Operating Expenditure</b>	6 188 079 824	6 189 019 096	5 936 097 127	5 940 897 127	5 944 355 287	143 443 444	6 087 798 731
<b>Total Capital Expenditure</b>	1 645 204 112	1 713 563 481	1 634 319 576	1 774 305 166	1 770 838 472	0	1 770 838 472
<b>Total Opex and Capex Budget</b>	7 833 283 936	7 902 582 577	7 570 416 703	7 715 202 293	7 715 193 759	143 443 444	7 858 637 203

Table 4 below provides a high-level summary of the Total Operating Budget Adjustment for 2017/18 financial year:

**Table 4: High-level summary of 2017/18 Total Operating Budget Adjustment**

2017/2018 BUDGET EXPENDITURE FRAMEWORK	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	2017/2018 ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b>Expenditure Per Category</b>							
Employee related costs	1 733 321 386	1 733 321 386	1 733 321 386	1 733 321 386	1 821 576 456	2 286 887	1 823 863 343
Remuneration of councillors	62 398 115	62 398 115	60 381 043	60 381 043	59 473 043	144 189	59 617 232
Debt impairment	317 788 481	317 788 481	317 788 481	317 788 481	174 928 437	135 456 600	310 385 037
Depreciation & asset impairment	778 272 580	778 272 580	778 272 580	778 272 580	974 735 442	17 325 629	992 061 071
Finance charges	54 318 230	54 318 230	45 240 109	45 240 109	43 955 109	0	43 955 109
Bulk purchases	1 578 166 510	1 578 166 510	1 578 166 510	1 578 166 510	1 555 303 510	(2 815 086)	1 552 488 424
Other materials	0	0	81 406 132	77 710 803	82 735 803	573 224	83 309 027
Contracted services	38 959 973	38 959 973	824 731 115	832 921 751	706 822 564	0	706 822 564
Transfers and subsidies	328 636 857	328 636 857	77 470 345	77 970 345	76 403 925	(14 344 363)	62 059 562
Other expenditure	0	1 297 156 964	430 241 305	430 045 998	448 420 998	2 317 001	450 737 999
Loss on disposal of PPE	0	0	9 078 121	9 078 121	0	2 499 363	2 499 363
<b>Total Direct Operating Expenditure</b>	<b>4 891 862 132</b>	<b>6 189 019 096</b>	<b>5 936 097 127</b>	<b>5 940 897 127</b>	<b>5 944 355 287</b>	<b>143 443 444</b>	<b>6 087 798 731</b>

Table 4 above indicates the aggregate total of R143,443,444 required to fund the unauthorised expenditure incurred on some of the expenditure types for 2017/18 financial year; as set out in table 2 above is as a result of overspending on Employee Related Costs (R2,286,887), Debt impairment (R135,456,598), Depreciation and asset impairment (R17,325,629), Other Materials (573,224), Other Expenditure (R2,317,001) and Loss on disposal of PPE (R2,499,363).

- a) The adjustments column on the table above indicates the adjustments to be made between the expenditure types;
- b) There has been budget savings totalling R17,159,449 on some of the expenditure items (Bulk Purchases and Transfers and Grants) that have been reallocated to Employee related costs, Remuneration of councillors, Depreciation and asset impairment, Other Materials, Other expenditure and Loss on disposal of PPE to reduce unauthorised expenditure from R160,458,700 to R143,443,444. The amount of R144 189 that has been reallocated to Remuneration of councillors is to cover the over-expenditure on the

remuneration of board of directors affecting the consolidated Annual Financial statements.

- c) The aggregate total of R143,443,444 on the adjustment column is the additional budget required to fund the unauthorised expenditure in the operating expenditure budget.

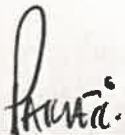
### **5.3 COUNCIL RESOLUTIONS**

On the 29 August 2018 the Council of Buffalo City Metropolitan Municipality met to consider and approve the fourth adjusted budget of 2017/18. 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." According to regulation 23(6)(b) of the MBRR, council may authorise unauthorised expenditure in a special adjustments budget tabled in council when the mayor tables the annual report in terms of section 127(2) of the MFMA.

It is therefore recommended that:

- (a) The 2017/18 unauthorised adjustment budget be considered and approved by Council.
- i. The unauthorised expenditure of the Parent Municipality of R160,458,700 incurred on the following expenditure types:
- Employee Related Costs (R2,286,887), Debt impairment (R135,456,598), Depreciation and asset impairment (R17,325,629), Other Materials (573,224), Other Expenditure (R2,317,001) and Loss on disposal of PPE (R2,499,363).
- ii. The Consolidated unauthorised expenditure of R157,562,251 incurred on the following expenditure types:
- Remuneration of Councillors (R144,189), Debt impairment (R135,456,598), Depreciation and asset impairment (R17,267,068), Other Expenditure (R2,195,034) and Loss on disposal of PPE (R2,499,363).

- iii. The transfer of the savings identified from the following expenditure types to Other expenditure be approved by Council.
- Transfer of R2,815,086 from Bulk Purchases and transfer of R14 344 363 from Transfers and Grants.
- iv. An increase of R143,443,444 in the Parent Operating Expenditure Budget for the 2017/18 financial year from R5,944,355,294 to R6,087,798,738 to fund the unauthorised expenditure be approved by Council.
- v. An increase of R143,443,444 in the Consolidated Operating Expenditure Budget for the 2017/18 financial year from R5,952,833,256 to R6,096,277,593 to fund the unauthorised expenditure be approved by Council.
- vi. The fifth and final 2017/18 MTREF adjusted budget be approved by Council.
- vii. The adjusted Operating Revenue Budget of the Parent for the 2017/18 financial year that remains unchanged as R5,945,281,757 be approved by Council.
- viii. The adjusted Consolidated Operating Revenue Budget for the 2017/18 financial year that remains unchanged as R5,954,496,258 be approved by Council.
- ix. The adjusted Capital Budget of the Parent for the 2017/18 financial year that remains unchanged as R1,770,838,473 be approved by Council.
- x. The adjusted Consolidated Capital Budget for the 2017/18 financial year that remains unchanged as R1,771,575,004 be approved by Council.



**X. PAKATI**

**EXECUTIVE MAYOR**

**BUFFALO CITY METROPOLITAN MUNICIPALITY**

ANDILE SIHLAHLA / SP

08/01/2019.

**DATE**

#### **5.4 EXECUTIVE SUMMARY**

The Buffalo City Metropolitan Municipality is striving to excel in its governance responsibility. One of the fundamental pillars of achieving governance excellence is ensuring full compliance with applicable legislations. This unauthorised expenditure adjustment budget report is responding to the Municipal Finance Management Act (MFMA) and the Municipal Budget and Reporting Regulations (MBRR) requirements which prescribe that the unauthorised expenditure may be authorised through a special budget adjustment tabled in council when the mayor tables the annual report in terms of section 127(2) of the MFMA.

BCMM undertook an analysis of unauthorised expenditure that has been incurred and disclosed in its 2017/18 AFS. The analysis which has been detailed in section 5.1 above of this report revealed that, the incurred unauthorised expenditure has been purely a result of technical misalignment between budget and actual figures due to difficulty in accurately projecting the budget appropriation for each expenditure type. This is inherent in the institution's operations.

A special budget adjustment is therefore tabled at Council to authorise the unauthorised expenditure of R160,458,700 that is disclosed in the 2017/18 AFS. Savings of R17,159,449 have been identified to reduce unauthorised expenditure, resulting in the additional expenditure budget of R143,443,444 requested to write off the unauthorised expenditure. It is therefore necessary that the adjustment budget for 2017/18 financial year be tabled at Council for its consideration and approval.

The total operating revenue budget for the 2017/18 financial year has not been adjusted and remains R5,945,281,757 as no extra revenue was realised. The total operating expenditure budget for the 2017/18 financial year of R5,944,355,287 has been increased by an amount of R143,443,444 to cover the unauthorised expenditure incurred in the 2017/18 financial year. Savings of R17,159,449 have been identified to reduce unauthorised expenditure. There has been no adjustment

made in the capital budget of 2017/18 financial year and remains R1,770,838,473 (Refer to section 5.7 below for details).

#### 5.4.1 OPERATING AND CAPITAL BUDGET ADJUSTMENT

Table 5 below provides a high-level summary of the Operating and Capital Budget adjustments for the financial year, 2017/18. The table also indicates that there has been no change in the overall total budget for the operating revenue as no extra revenue was realised. It also reflects that there is no change in the overall total capital budget. The operating expenditure budget has been increased by R143,443,444 to fund the unauthorised expenditure.

**Table 5: High-level summary of the 2017/18 Operating and Capital Budget Adjustment**

OPERATING AND CAPITAL BUDGET EXPENDITURE	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
Total Revenue	(6 189 006 311)	(6 189 945 583)	(5 937 023 597)	(5 941 823 597)	(5 945 281 757)	0	(5 945 281 757)
Total Operating Expenditure Excluding Operating Projects	5 888 106 374	5 888 106 374	5 626 693 242	5 626 693 259	5 639 160 858	143 443 444	5 782 604 302
Operating Projects	299 973 450	300 912 722	309 403 868	314 203 868	305 194 429	0	305 194 429
Total Operating Expenditure Including Operating Projects	6 188 079 824	6 189 019 096	5 936 097 110	5 940 897 127	5 944 355 287	143 443 444	6 087 798 731
(Surplus) / Deficit	(926 487)	(926 487)	(926 487)	(926 470)	(926 470)	143 443 444	142 516 974
Total Capital Expenditure	1 645 204 112	1 713 563 481	1 634 319 576	1 774 305 166	1 770 838 472	0	1 770 838 472
Total Operating and Capital Budget	7 833 283 936	7 902 582 577	7 570 416 686	7 715 202 293	7 715 193 759	143 443 444	7 858 637 203

## 5.5 OPERATING REVENUE FRAMEWORK

The following table depicts that no adjustments have been made to the operating revenue budget per source for the 2017/18 financial year.

**Table 6: 2017/18 Adjusted Revenue per Source**

2017/2018 BUDGET REVENUE FRAMEWORK	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b>Revenue Per Source</b>							
Property Rates	1 225 284 909	1 225 284 909	1 121 174 877	1 121 174 877	1 121 174 877	0	1 121 174 877
Electricity Charges	1 806 438 896	1 806 438 896	1 865 136 415	1 865 136 415	1 865 136 415	0	1 865 136 415
Water Charges	479 126 770	479 126 770	511 438 410	511 438 410	511 438 410	0	511 438 410
Sanitation Charges	365 997 836	365 997 836	293 155 577	293 155 577	293 155 577	0	293 155 577
Refuse Charges	336 765 776	336 765 776	266 916 625	266 916 625	266 916 625	0	266 916 625
Other Service Charges	23 565 563	23 565 563	0	0	0	0	0
Rental of facilities and equipment	23 173 696	23 173 696	25 118 822	25 118 822	25 118 822	0	25 118 822
Interest earned - external investments	157 002 322	157 002 322	131 002 322	131 002 322	131 002 322	0	131 002 322
Interest earned - outstanding debtors	36 843 509	36 843 509	42 843 509	42 843 509	42 843 509	0	42 843 509
Fines	9 156 724	9 156 724	9 894 023	9 894 023	9 894 023	0	9 894 023
Licences and permits	17 555 658	17 555 658	16 254 435	16 254 435	16 254 435	0	16 254 435
Agency services	49 763 403	49 763 403	44 763 403	44 763 403	44 763 403	0	44 763 403
Transfers recognised - operational	1 368 105 621	1 369 044 893	1 370 858 240	1 375 658 240	1 379 116 400	0	1 379 116 400
Other revenue	290 225 628	290 225 628	238 466 939	238 466 939	238 466 939	0	238 466 939
<b>Total Direct Operating Income</b>	<b>6 189 006 311</b>	<b>6 189 945 583</b>	<b>5 937 023 597</b>	<b>5 941 823 597</b>	<b>5 945 281 757</b>	<b>0</b>	<b>5 945 281 757</b>

## 5.6 OPERATING EXPENDITURE FRAMEWORK

The following table indicates the downwards adjustments made from the expenditure types with savings and the upwards adjustments made to expenditure types with unauthorised expenditure.

It also indicates that the net effect is an upwards adjustment of R143,443,444 to fund the unauthorised expenditure incurred in the 2017/18 financial year.



**Table 7: 2017/18 Adjusted Operating Expenditure per Type**

2017/2018 BUDGET EXPENDITURE FRAMEWORK	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b><u>Expenditure Per Category</u></b>							
Employee related costs	1 733 321 386	1 733 321 386	1 733 321 386	1 733 321 386	1 821 576 456	2 286 887	1 823 863 343
Remuneration of councillors	62 398 115	62 398 115	60 381 043	60 381 043	59 473 043	144 189	59 617 232
Debt impairment	317 788 481	317 788 481	317 788 481	317 788 481	174 928 437	135 456 600	310 385 037
Depreciation & asset impairment	778 272 580	778 272 580	778 272 580	778 272 580	974 735 442	17 325 629	992 061 071
Finance charges	54 318 230	54 318 230	45 240 109	45 240 109	43 955 109	0	43 955 109
Bulk purchases	1 578 166 510	1 578 166 510	1 578 166 510	1 578 166 510	1 555 303 510	(2 815 086)	1 552 488 424
Other materials	0	0	81 406 132	77 710 803	82 735 803	573 224	83 309 027
Contracted services	38 959 973	38 959 973	824 731 115	832 921 751	706 822 564	0	706 822 564
Transfers and subsidies	328 636 857	328 636 857	77 470 345	77 970 345	76 403 925	(14 344 363)	62 059 562
Other expenditure	0	1 297 156 964	430 241 305	430 045 998	448 420 998	2 317 001	450 737 999
Loss on disposal of PPE	0	0	9 078 121	9 078 121	0	2 499 363	2 499 363
<b><u>Total Direct Operating Expenditure</u></b>	<b>4 891 862 132</b>	<b>6 189 019 096</b>	<b>5 936 097 127</b>	<b>5 940 897 127</b>	<b>5 944 355 287</b>	<b>143 443 444</b>	<b>6 087 798 731</b>

**The unauthorised expenditure has been incurred on the following expenditure items:**

Employee related costs (R2,286,887), Debt impairment (R135,456,600), Depreciation and asset impairment (R17,325,629), Other materials R573,224, Other Expenditure (R2,317,001), and Loss on disposal of PPE R2,499,363. The total unauthorised expenditure incurred on these items is R160,458,700.

**Savings have been identified on the following expenditure items:**

Bulk Purchases (R2,815,086) and Transfers and grants (R14,344,363).

These savings have been transferred to Other Expenditure to reduce the unauthorised expenditure, resulting in an authorised expenditure reduced to R143,443,444. Therefore, it is necessary that the operating expenditure budget be increased by R143,443,444.



### 5.6.1 2017/18 Budget Adjustment on Operating Projects

The following (Table 8 & 9), tabulates the operating projects expenditure budget for the 2017/18 financial year per directorate and the funding sources respectively, and depicts that no adjustment have been made on the operating projects expenditure budget for 2017/18 financial year. (Refer to Annexure 1 for details)

**Table 8: 2017/18 Adjusted Operating Projects per Directorate**

2017/2018 OPEX PROJECTS BUDGET PER DIRECTORATE	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b>Directorate</b>							
Directorate of Executive Support Services	5 732 781	5 822 639	5 188 971	5 188 971	5 134 865	0	5 134 865
Directorate of the City Manager	46 784 665	46 784 665	49 507 745	54 307 745	51 711 065	0	51 711 065
Directorate of Human Settlement	91 300 000	91 300 000	91 600 000	91 600 000	91 100 000	0	91 100 000
Directorate of Financial Services	47 950 000	47 950 000	44 550 000	44 550 000	44 944 202	0	44 944 202
Directorate of Corporate Services	12 566 500	12 566 500	20 525 850	20 525 850	20 665 044	0	20 665 044
Directorate of Infrastructure Services	43 500 000	43 995 761	46 195 761	46 195 761	51 188 996	0	51 188 996
Directorate of Spatial Planning and Development	9 152 000	9 152 000	11 319 000	11 319 000	11 178 026	0	11 178 026
Directorate of Economic Development & Agencies	26 977 504	26 977 504	26 447 504	26 447 504	16 732 283	0	16 732 283
Directorate of Health, Public Safety & Emergency Services	1 860 000	1 860 000	2 660 000	2 660 000	930 436	0	930 436
Directorate of Municipal Services	14 150 000	14 503 653	11 409 037	11 409 037	11 609 512	0	11 609 512
<b>Total Directorates</b>	<b>299 973 450</b>	<b>300 912 722</b>	<b>309 403 868</b>	<b>314 203 868</b>	<b>305 194 429</b>	<b>0</b>	<b>305 194 429</b>

**Table 9: 2017/18 Adjusted Operating Projects per Funding Source**

2017/2018 OPEX PROJECTS BUDGET PER FUNDING SOURCE	2017/2018 APPROVED	2017/2018 FIRST	2017/2018 MID-YEAR	2017/2018 THIRD	2017/2018 FOURTH	ADJUSTMENTS	2017/2018 FIFTH
<b>Own Funding</b>							
Own Funds	120 122 829	120 122 829	126 800 628	126 800 628	114 333 029	0	114 333 029
<b>Total Own Funding</b>	<b>120 122 829</b>	<b>120 122 829</b>	<b>126 800 628</b>	<b>126 800 628</b>	<b>114 333 029</b>	<b>0</b>	<b>114 333 029</b>
<b>Grant Funding</b>							
City of Oldenburg c/o	0	495 761	495 761	495 761	495 761	0	495 761
Dept. of Public Works c/o	0	353 653	0	0	0	0	0
Expanded Public Works Programme Incentives Grant	4 952 000	4 952 000	4 952 000	4 952 000	4 952 000	0	4 952 000
Finance Management Grant	1 200 000	1 200 000	1 300 000	1 300 000	1 300 000	0	1 300 000
Gavle c/o	0	89 858	89 858	89 858	89 858	0	89 858
Human Settlement Development Grant	90 800 000	90 800 000	90 800 000	90 800 000	90 800 000	0	90 800 000
Infrastructure Skills Development Grant	10 560 000	10 560 000	10 560 000	10 560 000	10 560 000	0	10 560 000
Leiden	138 207	138 207	138 207	138 207	138 207	0	138 207
Public Transport Infrastructure Grant	7 702 000	7 702 000	9 869 000	9 869 000	9 869 000	0	9 869 000
Salaïda (Gavle)	1 454 574	1 454 574	1 454 574	1 454 574	1 454 574	0	1 454 574
Urban Settlement Development Grant	63 043 840	63 043 840	62 943 840	67 743 840	71 202 000	0	71 202 000
<b>Total Grant Funding</b>	<b>179 850 621</b>	<b>180 789 893</b>	<b>182 603 240</b>	<b>187 403 240</b>	<b>190 861 400</b>	<b>0</b>	<b>190 861 400</b>
<b>Total Funding</b>	<b>299 973 450</b>	<b>300 912 722</b>	<b>309 403 868</b>	<b>314 203 868</b>	<b>305 194 429</b>	<b>0</b>	<b>305 194 429</b>

## 5.7 CAPITAL EXPENDITURE FRAMEWORK

There have been no adjustments made in the 2017/18 capital budget. The tables (table 10 and 11) below indicates that no adjustments have been made to the capital expenditure budget for the 2017/18 financial year. (Refer to annexure 2 for details)

**Table 10: 2017/18 Adjusted Capital Expenditure Budget per Directorate**

2017/2018 CAPEX PROJECTS BUDGET PER DIRECTORATE	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b>Directorate</b>							
Directorate of Executive Support Services	3 000 000	6 729 240	7 229 240	7 229 240	7 229 240	0	7 229 240
Directorate of the City Manager	22 500 000	39 109 286	42 409 286	42 409 286	55 408 813	0	55 408 813
Directorate of Human Settlement	186 355 000	186 775 242	142 315 242	168 315 242	145 275 964	0	145 275 964
Directorate of Financial Services	97 820 000	97 820 000	81 020 000	81 020 000	79 291 839	0	79 291 839
Directorate of Corporate Services	6 000 000	8 337 104	3 612 990	3 612 990	3 612 990	0	3 612 990
Directorate of Infrastructure Services	856 154 323	861 912 732	879 795 953	982 795 953	1 026 807 193	0	1 026 807 193
Directorate of Spatial Planning and Development	234 721 000	243 757 112	247 620 690	250 619 690	229 308 989	0	229 308 989
Directorate of Economic Development & Agencies	43 100 000	59 597 779	51 097 779	51 097 779	51 450 150	0	51 450 150
Directorate of Health, Public Safety & Emergency Services	30 205 000	41 245 323	49 245 323	49 245 323	42 628 393	0	42 628 393
Directorate of Municipal Services	165 348 789	168 279 663	129 973 073	137 959 664	129 824 902	0	129 824 902
<b>Total Directorates</b>	<b>1 645 204 112</b>	<b>1 713 563 481</b>	<b>1 634 319 576</b>	<b>1 774 305 167</b>	<b>1 770 838 473</b>	<b>0</b>	<b>1 770 838 473</b>

**Table 11: 2017/18 Adjusted Capital Expenditure Budget Per Funding**

2017/2018 CAPEX PROJECTS BUDGET PER FUNDING SOURCE	2017/2018 APPROVED BUDGET	2017/2018 FIRST ADJ BUDGET	2017/2018 MID-YEAR ADJ BUDGET	2017/2018 THIRD ADJ BUDGET	2017/2018 FOURTH ADJ BUDGET	ADJUSTMENTS	2017/2018 FIFTH ADJ BUDGET
<b>Own Funding</b>							
Own Funds	780 896 952	839 991 209	814 991 209	793 777 800	793 777 800	0	793 777 800
LOAN	69 000 000	69 000 000	0	0	0	0	0
<b>Total Own Funding</b>	<b>849 896 952</b>	<b>908 991 209</b>	<b>814 991 209</b>	<b>793 777 800</b>	<b>793 777 800</b>	<b>0</b>	<b>793 777 800</b>
<b>Grant Funding</b>							
DoE (Integrated National Electrification Programme)	25 000 000	25 000 000	19 808 534	19 808 534	19 800 000	0	19 800 000
Finance Management Grant	100 000	100 000	0	0	0	0	0
Gavle c/o	0	229 000	229 000	229 000	229 000	0	229 000
Integrated City Development Grant	6 956 000	6 956 000	6 956 000	6 956 000	6 956 000	0	6 956 000
Dept. of Local Government and Traditional Affairs c/o	0	9 036 112	9 036 112	9 036 112	9 036 112	0	9 036 112
Neighbourhood Development Partnership Grant	10 000 000	10 000 000	0	0	0	0	0
Urban Settlement Development Grant	705 084 160	705 084 160	705 184 160	860 384 160	856 926 000	0	856 926 000
Energy Efficiency and Demand Side Management Grant	0	0	0	5 000 000	5 000 000	0	5 000 000
Public Transport Infrastructure Grant	48 167 000	48 167 000	78 114 561	79 113 561	79 113 561	0	79 113 561
<b>Total Grant Funding</b>	<b>795 307 160</b>	<b>804 572 272</b>	<b>819 328 367</b>	<b>980 527 367</b>	<b>977 060 673</b>	<b>0</b>	<b>977 060 673</b>
<b>Total Funding</b>	<b>1 645 204 112</b>	<b>1 713 563 481</b>	<b>1 634 319 576</b>	<b>1 774 305 167</b>	<b>1 770 838 473</b>	<b>0</b>	<b>1 770 838 473</b>

## **PART 2 – SUPPORTING DOCUMENTATION**

### **6.1 ADJUSTMENT TO BUDGET ASSUMPTIONS**

The budget assumptions have not been adjusted as a result this adjustment budget does not have an impact on tariffs.

### **6.2 ADJUSTMENTS TO ALLOCATIONS OR GRANTS MADE BY THE MUNICIPALITY**

There have been no adjustments to allocations or grants made by the municipality.

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

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

### **6.4 CHALLENGES**

None

### **6.5 STAFF IMPLICATIONS**

None

### **6.6 FINANCIAL IMPLICATIONS**

The unauthorised expenditure adjustments to the 2017/18 budget does not have an impact on tariffs as these are funded from current operating revenue, grants & subsidies and own funding reserves. The effects of the 2017/18 adjustments to the Operating and Capital Budget are outlined below:

- I. The unauthorised expenditure of the Parent Municipality of R160,458,700 has been incurred on the following expenditure types;
  - Employee related costs (R2,286,887), Debt impairment (R135,456,598), Depreciation and asset impairment (R17,325,629), Other Materials (R573,224), Other expenditure (R2,317,001) and Loss on disposal of PPE (R2,499,363)
  
- II. The consolidated unauthorised expenditure of R157,562,251 has been incurred on the following types;
  - Remuneration of Councillors (R144,189), Debt impairment (R135,456,598), Depreciation and asset impairment (R17,267,068), Other Expenditure (R2,195,034) and Loss on disposal of PPE (R2,499,363).
  
- III. Savings amounting to R17,159,449 have been identified and transferred to reduce the unauthorised expenditure to R143,443,444. Savings have been identified from the following expenditure items;
  - Transfer of R2,815,086 from Bulk Purchases and transfer of R14,344,363 from Transfers and Grants.
  
- IV. The operating expenditure budget has been increased by R143,443,444 to fund the unauthorised expenditure for the 2017/18 financial year.
  
- V. The National Treasury B Schedules that have been adjusted in line with the above are herewith enclosed as Annexure 3.

## **6.7 OTHER PARTIES CONSULTED**

All Directorates

6.8 CITY MANAGER'S QUALITY CERTIFICATE

I Andile Sihlahla, City Manager of Buffalo City Metropolitan Municipality, hereby certify that the adjusted budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name Andile Sihlahla

City Manager of Buffalo City Metropolitan Municipality (BUF)

Signature  \_\_\_\_\_

Date 08/01/2019 \_\_\_\_\_

**ANNEXURES:**

Annexure 1: Detailed Schedule of Operating Projects – 2017/2018

Annexure 2: Detailed Schedule of Capital Projects – 2017/2018

Annexure 3: National Treasury B Schedules -2017/2018

Annexure 4: Consolidated National Treasury B Schedules – 2017/2018