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BUFFALO CITY  
METROPOLITAN MUNICIPALITY

AGENDA

BUFFALO CITY  
METROPOLITAN COUNCIL

**27 FEBRUARY 2015**

**10.00 A.M.**



BUFFALO CITY  
METROPOLITAN MUNICIPALITY

**BUFFALO CITY METROPOLITAN COUNCIL**

The following supplementary reports are circulated for consideration by the Buffalo City Metropolitan Council at its meeting to be held on

**FRIDAY, 27 FEBRUARY 2015**

at

**10.00 A.M.**

in the

**BORDER CONFERENCE CENTRE  
(Abbotsford Christian Centre)**

**COUNCILLOR L.E. SIMON-NDZELE**

**SPEAKER**

JFA/MG/ev

(AGENDAS/2015/(METRO)/39CMC27-2)

Elco Building, Fleet Street  
EAST LONDON  
16 February 2015

**REPORTS**

16. Report of the Executive Mayor

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**REPORT TO COUNCIL: 27 FEBRUARY 2015**

File No.:5/1/1/1[14/15]

Author: EXECUTIVE MAYOR (ZUKISWA NCITHA)/AF

**8 2014/15 MID-YEAR ADJUSTMENTS BUDGET REPORT****1. PURPOSE**

The purpose of the report is for the Council to consider and approve the mid-year adjustments budget of Buffalo City Metropolitan Municipality for the 2014/15 financial year.

**2. AUTHORITY**

Council

**3. LEGAL / STATUTORY REQUIREMENTS**

The Constitution of the Republic of South Africa, 1996

Municipal Finance Management Act No 56, 2003 Chapter 7, Section 71

Municipal Budget and Reporting Regulations

**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 adjustments budget.*

*(2) An adjustments budget—*

*(a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;*

*(b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;*

*(c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;*

*(d) may authorise the utilisation of projected savings in one vote towards*

*spending under another vote;*

*(e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;*

*(f) may correct any errors in the annual budget; and*

*(g) may provide for any other expenditure within a prescribed framework.*

*(3) An adjustments budget must be in a prescribed form.*

*(4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.*

*(5) When an adjustments budget is tabled, it must be accompanied by—*

*(a) an explanation how the adjustments budget affects the annual budget;*

*(b) a motivation of any material changes to the annual budget;*

*(c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and*

*(d) any other supporting documentation that may be prescribed.*

*(6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan."*

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

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

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

In terms of Section 54(1) on receipt of a statement or report submitted by the Accounting Officer of the municipality and in terms of Section 71 or 72, the Mayor must –

*“(c) consider and, if necessary, make any revisions to the Service Delivery And Budget Implementation Plan, provided that the revision to the service delivery targets and performance indicators in the plan may only be made with the approval of the Council following approval of an adjustment.”*

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

## 5. EXPOSITION OF FACTS

The mid-year budget adjustment is being prepared as informed by the Mid-Year Budget and Performance Assessment and certain adjustments have been identified in terms of Section 28(2) of the MFMA. The main reason for this adjustment budget is the re-allocation of budget between votes to additional budget requests and to address operational efficiencies.

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

| OPERATING AND CAPITAL<br>BUDGET EXPENDITURE | 2014/2015<br>ADOPTED<br>BUDGET YR1 | 2014/2015<br>1ST ADJ<br>BUDGET | 2014/2015<br>2ND ADJ<br>BUDGET | 2014/2015<br>3RD BUDGET<br>ADJUSTMENTS | 2014/2015<br>3RD ADJ<br>BUDGET |
|---|------------------------------------|--------------------------------|--------------------------------|--|--------------------------------|
| Total Operating Revenue                     | (4 761 340 651)                    | (4 805 868 293)                | (4 789 868 293)                | (81 889 353)                           | (4 871 757 646)                |
| Total Operating Expenditure                 | 4 749 700 442                      | 4 827 166 587                  | 4 811 166 587                  | 79 262 630                             | 4 890 429 217                  |
| Total Capital Expenditure                   | 942 007 423                        | 1 056 484 706                  | 1 056 484 706                  | 112 260 298                            | 1 168 745 004                  |
| Total Opex & Capex Budget                   | 5 691 707 865                      | 5 883 651 293                  | 5 867 651 293                  | 191 522 928                            | 6 059 174 221                  |

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

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## ABBREVIATIONS AND ACRONYMS

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

## PART 1 – ADJUSTMENT BUDGET

### 5.1 EXECUTIVE MAYOR'S REPORT

The mid-year budget adjustment is being prepared as informed by the mid-year budget and performance assessment and in terms of the MFMA, Municipal Budget and Reporting Regulations.

The main reason for this adjustment budget is the re-allocation of budget between votes, additional budget requests and to address operational efficiencies.

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

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

| OPERATING AND CAPITAL<br>BUDGET EXPENDITURE | 2014/2015<br>ADOPTED<br>BUDGET YR1 | 2014/2015<br>1ST ADJ<br>BUDGET | 2014/2015<br>2ND ADJ<br>BUDGET | 2014/2015<br>3RD BUDGET<br>ADJUSTMENTS | 2014/2015<br>3RD ADJ<br>BUDGET |
|---|------------------------------------|--------------------------------|--------------------------------|--|--------------------------------|
| Total Operating Revenue                     | (4 761 340 651)                    | (4 805 868 293)                | (4 789 868 293)                | (81 889 353)                           | (4 871 757 646)                |
| Total Operating Expenditure                 | 4 749 700 442                      | 4 827 166 587                  | 4 811 166 587                  | 79 262 630                             | 4 890 429 217                  |
| Total Capital Expenditure                   | 942 007 423                        | 1 056 484 706                  | 1 056 484 706                  | 112 260 298                            | 1 168 745 004                  |
| Total Opex & Capex Budget                   | 5 691 707 865                      | 5 883 651 293                  | 5 867 651 293                  | 191 522 928                            | 6 059 174 221                  |

There continues to be a focus to reduce the deficit for the institution in line with National Treasury requirements and produce a funded surplus budget. What continues to be of concern is the potential financial impact of depreciation on the operations of the institution.

There needs to be ongoing vigilance to reduce costs and become more efficient to allow for the funding of depreciation, the full impact of which still needs to be determined.

## 5.2 COUNCIL RESOLUTIONS

On 28 May 2014 the Council of Buffalo City Metropolitan Municipality met in the Council Chambers of East London City Hall to consider, approve and adopt the 2014/15 – 2016/17 MTREF Budget. The Council further met on 27 August 2014 and 29 October 2014 to consider and approve the first and the second adjustment budget respectively.

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:

- (a) The 2014/15 Mid-Year Adjustment Budget Report be considered and approved by Council.
- (b) The adjustment from R4 789 868 293 to R 4 871 757 646 of the 2014/15 Operating Revenue Budget be approved by Council.
- (c) The adjustment from R4 811 166 587 to R4 890 429 217 of the 2014/15 Operating Expenditure Budget be approved by Council.
- (d) The adjustment from R1 056 484 706 to R1 168 745 004 of the 2014/15 Capital Budget be approved by Council.

  
Z.V. NCITHA  
EXECUTIVE MAYOR

16/02/15  
DATE

### 5.3 EXECUTIVE SUMMARY

The Buffalo City Metropolitan Municipality has recognised that it is not immune to the economic challenges that are experienced by South African. These are characterised by low economic growth, high unemployment rate, skills shortages, administrative shortcomings, decrease in GDP growth, increasing difficulty by consumers to service their debts, labour market disruptions, and weak economic global environment. The country is also facing the following challenges which results in less funding available for service delivery:

- tax revenue that is below budget projections,
- government consumption spending that is too high,
- Rise in government debt as a percentage of GDP.

This scenario has placed tremendous pressure on the National fiscus to generate more revenue to support the various spheres of government including local government. The downgrading of the country's credit rating has made borrowing difficult and expensive. The economy of the country has also not been able to create enough new jobs, both in private and public sector. The country's electricity challenges that are experienced by its producer (ESKOM) are also having negative impact to the economy and possible future investments and developments. This further means that less electricity will be consumed than anticipated resulting in less revenue generated from the electricity service.

To mitigate the economic challenges at hand, Government is expected to take strong measures, namely:

- reduce budget deficit,
- limit growth of consumption expenditure,
- higher or more savings, increase productive investment,
- increase tax revenue.

BCMM has had to take a more conservative approach in the manner in which it approaches the budgeting including this mid-year adjustment budget. This approach includes giving consideration in the budget to the cost containment measures suggested by National Treasury. These measures are being implemented in an attempt to ensure the future viability of the institution and to focus on reducing the negative impact on the residents within our boundaries.

There appears to be a continued increase in electricity losses as it has BCMM is experiencing decline in electricity revenue whilst electricity purchases. There is also a high rise in demand for water purchases compared to rise in water revenue as there are more water connections in the rural areas of the metro where no revenue is generated. Investigation is required in these serves and swift action must be taken to deal with the illegal connections to curb electricity and water losses. Therefore bulk electricity purchases is adjusted upwards by R12.9 million.

The key liquidity metrics are deemed to be adequate. In addition, cash holdings are expected to continue to cover total borrowings over the medium term and maintain a cost coverage ratio of 3 months indicating its ability to cover its fixed operating costs.

The debtor's collection rate for the average 12 months ending 31 December 2014 is 92% (2013/14: 92.91%). This rate is not reflecting any improvements which is an indication that the metro's revenue collection is stagnant.

There has been an increase in the infrastructure spending (38% as at 31 December 2014) when compared to the similar period in the previous year (30% as at 31 December 2013). The main contributing factor of the increase in capital expenditure improved planning and project implementation and management.

### 5.3.1 Budget Adjustment Summary

The main reason for this adjustment budget is the re-allocation of budget between votes, additional budget requests and to ensure operational efficiencies. The table below indicate the summary of the 2014/15 mid-year budget adjustments.

**Table 2: 2014/15 Adjustment Budget Summary**

| OPERATING AND CAPITAL BUDGET EXPENDITURE     | 2014/2015       | 2014/2015       | 2014/2015       | 2014/2015     | 2014/2015       |
|--|-----------------|-----------------|-----------------|---------------|-----------------|
|  | ADOPTED         | 1ST ADJ         | 2ND ADJ         | 3RD BUDGET    | 3RD ADJ         |
|  | BUDGET YR1      | BUDGET          | BUDGET          | ADJUSTMENTS   | BUDGET          |
| Total Revenue                                | (4 761 340 651) | (4 805 868 293) | (4 789 868 293) | (81 809 353)  | (4 871 757 646) |
| Total Operating Expenditure                  | 4 538 728 772   | 4 538 728 764   | 4 522 728 764   | 25 779 450    | 4 548 508 214   |
| (Surplus) / Deficit                          | (222 611 879)   | (267 139 529)   | (267 139 529)   | (56 109 903)  | (323 249 432)   |
| Operating Projects                           | 210 971 670     | 288 437 823     | 288 437 823     | 53 483 180    | 341 921 003     |
| (Surplus) / Deficit After Operating Projects | (11 640 209)    | 21 298 294      | 21 298 294      | (109 593 083) | 18 671 571      |
| Total Capital Expenditure                    | 942 007 423     | 1 056 484 706   | 1 056 484 706   | 112 260 298   | 1 168 745 004   |
| Total Budget                                 | 5 691 707 865   | 5 883 651 293   | 5 867 651 293   | 191 522 928   | 6 059 174 221   |

### 5.3.2 Budget Adjustment on DoRA Allocation

There has been only a downwards budget adjustment to DoRA allocation for the 2014/15 financial year due to the Department of Energy having reduced the current year allocation by R6.4 million.

## 5.4 OPERATING REVENUE FRAMEWORK

The following table depicts adjustments to the operating revenue budget per source. It reflects that there has been an increase in revenue totalling to R81.9 million. This is mainly due to increase in grants and subsidies amounting to R56.2 million which relates to Human Settlement Development Grants for operating projects (R53.7 million) and Greening Awards received (R2.5 million). Based on monthly statistics of the first half of the financial year, it projected that more income will be realised on Assessment rates (R16.6 million), Refuse Charges (R9.5 million), Sewerage Charges (R17.6 million) and Fire Levy (R1.4 million). It is also projected that there will be less income realised on Electricity (R17.2 million) and Trade Effluent (R2.4 million).

**Table 3: 2014/15 Adjusted Revenue per Source**

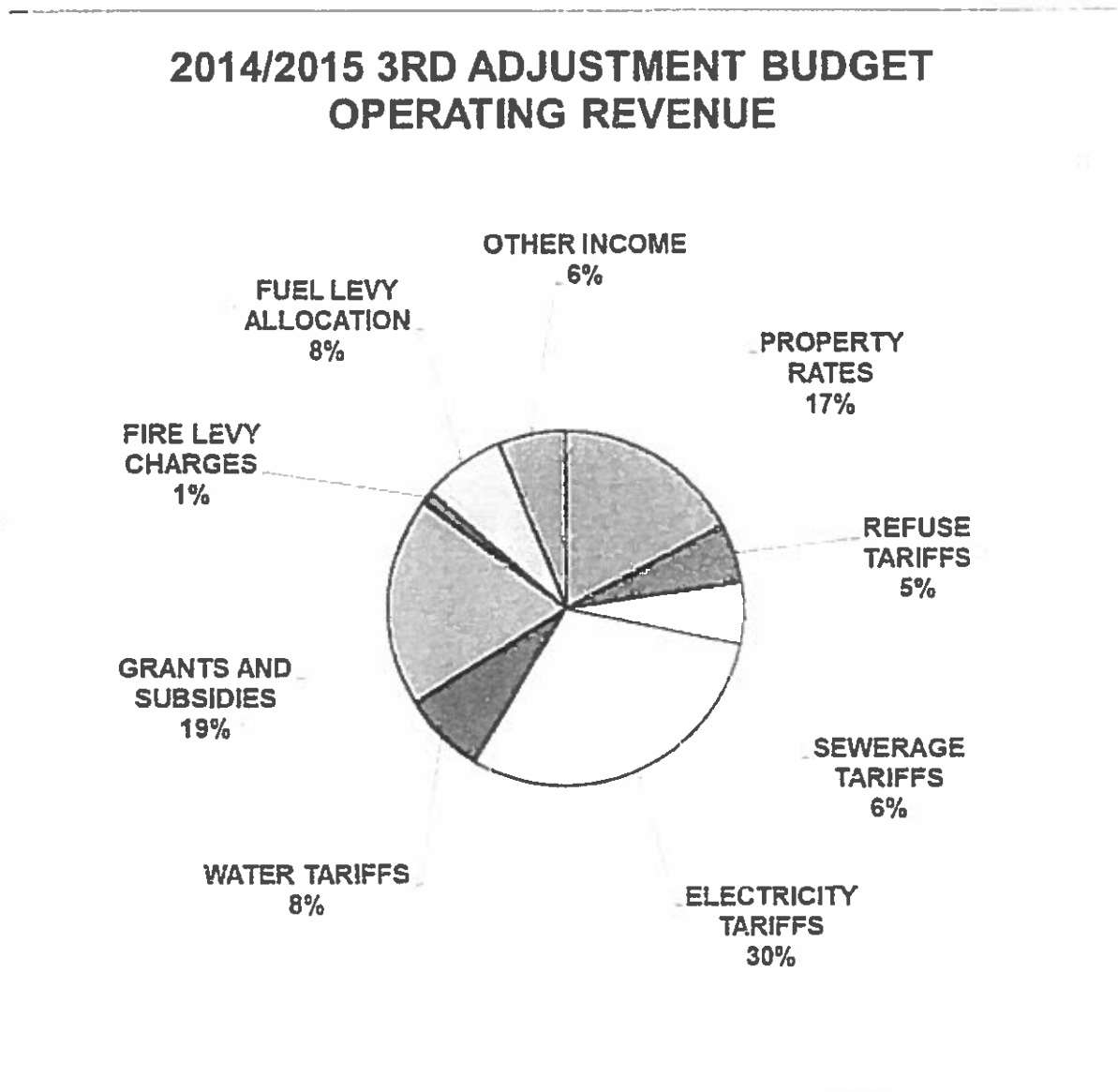
| 2014/2015 3RD<br>ADJUSTMENT BUDGET<br>REVENUE &<br>EXPENDITURE<br>FRAMEWORK | 2014/2015<br>ADOPTED<br>BUDGET YR1 | 2014/2015<br>1ST ADJ<br>BUDGET | 2014/2015<br>2ND ADJ<br>BUDGET | 2014/2015<br>3RD BUDGET<br>ADJUSTMENTS | 2014/2015<br>3RD ADJ<br>BUDGET |
|---|------------------------------------|--------------------------------|--------------------------------|--|--------------------------------|
| <b>Revenue Per Source</b>   |                                    |                                |                                |  |                                |
| Assessment Rates  | (826 221 072)                      | (826 221 072)                  | (826 221 072)                  | (16 630 651)                           | (842 851 723)                  |
| Refuse Charges  | (251 704 249)                      | (251 704 249)                  | (251 704 249)                  | (9 540 062)                            | (261 244 311)                  |
| Sewerage Charges  | (252 868 652)                      | (252 868 652)                  | (252 868 652)                  | (17 637 766)                           | (270 506 418)                  |
| Trade Effluent  | (18 339 984)                       | (18 339 984)                   | (18 339 984)                   | 2 360 454                              | (15 979 530)                   |
| Water Charges   | (370 613 268)                      | (370 613 268)                  | (370 613 268)                  | 0                                      | (370 613 268)                  |
| Electricity Charges   | (1 511 514 216)                    | (1 511 514 216)                | (1 495 514 216)                | 17 199 666                             | (1 478 314 550)                |
| Fire Levy   | (56 669 204)                       | (56 669 204)                   | (56 669 204)                   | (1 399 033)                            | (58 068 237)                   |
| Fuel Levy   | (361 639 000)                      | (361 639 000)                  | (361 639 000)                  | 0                                      | (361 639 000)                  |
| Grants and Subsidies  | (828 531 073)                      | (873 058 715)                  | (873 058 715)                  | (56 241 965)                           | (929 300 680)                  |
| Fines   | (9 400 009)                        | (9 400 009)                    | (9 400 009)                    | 0                                      | (9 400 009)                    |
| Housing Rentals   | (140 168)                          | (140 168)                      | (140 168)                      | 0                                      | (140 168)                      |
| Other Rentals   | (16 872 857)                       | (16 872 857)                   | (16 872 857)                   | 0                                      | (16 872 857)                   |
| Income Foregone   | 30 763 671                         | 30 763 671                     | 30 763 671                     | 0                                      | 30 763 671                     |
| Other   | (287 590 570)                      | (287 590 570)                  | (287 590 570)                  | 0                                      | (287 590 570)                  |
| <b>Total Direct Operating<br/>Income</b>                                    | <b>(4 761 340 651)</b>             | <b>(4 805 868 293)</b>         | <b>(4 789 868 293)</b>         | <b>(81 889 357)</b>                    | <b>(4 871 757 650)</b>         |

The figure below provides split of operating revenue budget per source. In terms of service revenue, on tariffs, electricity continue to be the main contributor to the revenue of the municipality by generating 30% of the total revenue. This is followed by water tariffs at 8%, sewerage tariff at 6% and refuse tariff at 5%.

The implementation of Valuations Roll continue to have a positive impact on the Property Rates revenue which totals 17% of the total Municipal revenue.

The municipality continues to receive grants and subsidies totalling 19% of the total revenue. These funds are utilised to provide basic services to the residents who are less fortunate as well as contributing to the provision of capital infrastructure service delivery to areas where there is limited or no Infrastructure in place.

Figure 1: Operating Revenue per Source



## 5.5 OPERATING EXPENDITURE FRAMEWORK

The following table details adjustments to the operating expenditure budget per category. It reflects that there is a total increase of R79.3 million. This is mainly caused by increase in operating projects amounting to R53.5 million which relates mainly to Human Settlement operating projects that are undertaken by the office of the Acting Chief Operations Officer. There is also a projected increase in Bulk Electricity Purchases amounting to R12.9 million. The increase in Salaries and Wages is for critical posts that will be filled in the finance directorate to improve capacity on financial management. An increase on general expenses has been made to cover shortfall on Rental of office accommodation to accommodate those that were stationed at City Hall whilst it is under refurbishment, hiring of venue for Council meetings whilst City Hall is under refurbishment has also been made, Legal Services Costs, Bursaries, Photocopier or Machine Rentals, IT Licenses, MPAC Operating Costs and BCMM Sporting Events (to cover short fall of R730 000 due to the fact that an amount of R2 million was redirected to BCMM Boxing). An amount of R4.5 million is reallocated from repairs and maintenance to hired plant within the same directorate (infrastructure) for hiring of plant that is utilised on implementation of repairs and maintenance work.

**Table 4: 2014/15 Adjusted Expenditure Budget per Category**

| 2014/2015 3RD ADJUSTMENT<br>BUDGET EXPENDITURE<br>FRAMEWORK | 2014/2015<br>ADOPTED<br>BUDGET YR1 | 2014/2015<br>1ST ADJ<br>BUDGET | 2014/2015<br>2ND ADJ<br>BUDGET | 2014/2015<br>3RD BUDGET<br>ADJUSTMENTS | 2014/2015<br>3RD ADJ<br>BUDGET |
|---|------------------------------------|--------------------------------|--------------------------------|--|--------------------------------|
| <b>Expenditure Per Category</b>                             |                                    |                                |                                |  |                                |
| Salaries, Wages & Allowances                                | 1 237 215 012                      | 1 239 915 012                  | 1 239 915 012                  | 1 209 991                              | 1 241 125 003                  |
| Remuneration of Councillors                                 | 52 254 296                         | 52 254 296                     | 52 254 296                     | 0                                      | 52 254 295                     |
| Debt Impairment   | 203 074 220                        | 203 074 220                    | 187 074 220                    | 0                                      | 187 074 221                    |
| General Expenses  | 742 832 260                        | 740 132 252                    | 740 132 252                    | 16 141 152                             | 756 273 404                    |
| Operating Projects  | 210 971 670                        | 288 437 823                    | 288 437 823                    | 53 483 180                             | 341 921 003                    |
| Bulk Electricity Purchases                                  | 1 029 452 182                      | 1 029 452 182                  | 1 029 452 182                  | 12 928 320                             | 1 042 380 502                  |
| Bulk Water Purchases  | 172 403 915                        | 172 403 915                    | 172 403 915                    | 0                                      | 172 403 915                    |
| Repairs & Maintenance                                       | 332 248 819                        | 332 248 819                    | 332 248 819                    | (4 500 008)                            | 327 748 811                    |
| Finance Charges   | 59 248 068                         | 59 248 068                     | 59 248 068                     | 0                                      | 59 248 068                     |
| Depreciation  | 710 000 000                        | 710 000 000                    | 710 000 000                    | 0                                      | 709 999 995                    |
| <b>Total Direct Operating<br/>Expenditure</b>               | <b>4 749 700 442</b>               | <b>4 827 166 587</b>           | <b>4 811 166 587</b>           | <b>79 262 630</b>                      | <b>4 890 429 217</b>           |

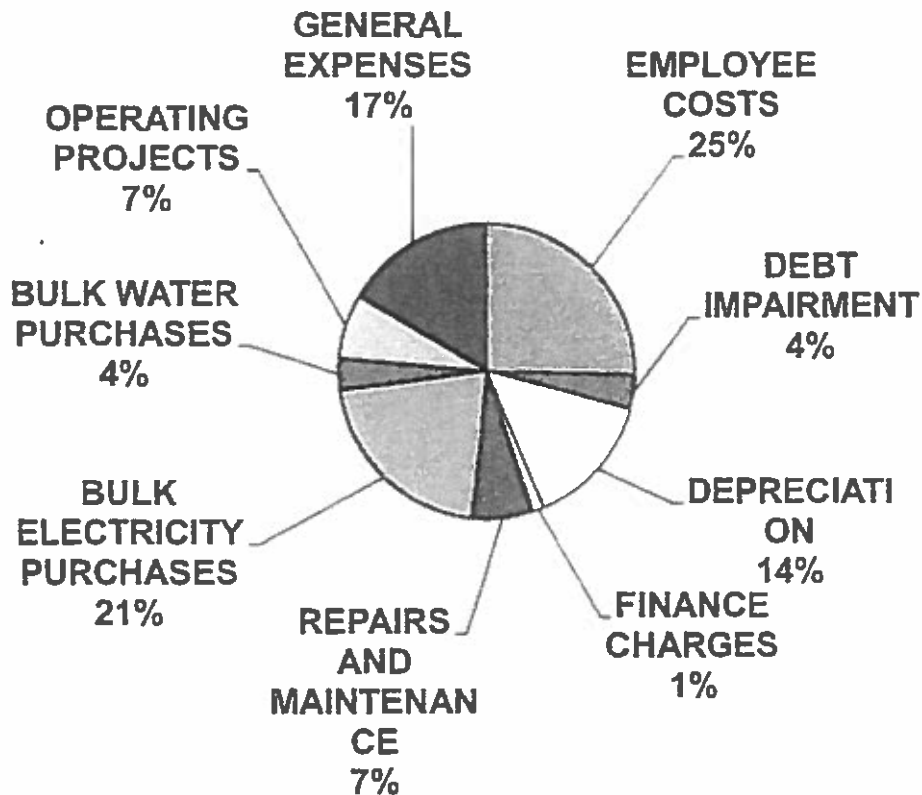


The figure below give the split of operating expenditure budget per category. Employee costs represent the largest cost of the Municipality and totals 25% of the total operating expenditure. Bulk Electricity at 25% represents the purchase of Electricity from Eskom. The Bulk Water purchases of 4% comprise the water purchases from Amatola Water. There has been focus on reducing purchases from Amatola Water in that there is a premium paid for purchased water and the institution has been able to adequately manage its own internal water reserves. General Expenses contribute 17% of total operating expenditure. This continue to be a focus area by the institution in an attempt to comply with the request made by National Treasury and to reduce the impact on the cost base of the institution in an attempt to reduce deficit.

Depreciation totals 14% of the total cost base for the institution. This represents the proportional funding requirements for the replacement of existing infrastructure assets. The main contributor for Operating projects at 7% of the total cost base is the housing project top structure funded from the Human Settlement Development Grant. Repairs and Maintenance is equal to 7% of the operating expenditure budget.

Figure 2: 2014/15 Operating Expenditure per Type

## 2014/2015 3RD ADJUSTMENT BUDGET OPERATING EXPENDITURE



### 5.5.1 Budget Adjustment on Operating Projects

The following table tabulates adjustments to the operating projects expenditure budget per funding source. It shows a total increase of R53.5 million which is made of R56.2 million increase in conditional grants and a decrease of R2.8 million from own funding. The main contributor is increase is Human Settlement operating projects that are funded by Human Settlement Development Grant. The project "Mdantsane 50<sup>th</sup> Anniversary" has been rolled over from the prior year.

**Table 5: Operating Projects Adjustment Budget**

| 2014/2015 OPERATING PROJECTS BUDGET PER FUNDING SOURCE | 2014/2015<br>Approved<br>Opex<br>Budget | 2014/2015<br>2nd Adj<br>Opex<br>Budget | 2014/2015<br>Adjustments | 2014/2015<br>Mid-Year<br>Adj<br>Opex<br>Budget |
|--|---|--|--------------------------|--|
| <b>Own Funding</b>                                     |   |  |                          |  |
| Own Funds  | 49 940 000                              | 61 440 000                             | (59 653)                 | 61 380 347                                     |
| Own Funds c/o  | 0                                       | 21 518 512                             | (2 699 132)              | 18 819 380                                     |
| <b>Total Own Funding</b>                               | <b>49 940 000</b>                       | <b>82 958 512</b>                      | <b>(2 758 785)</b>       | <b>80 199 727</b>                              |
| <b>Grant Funding</b>                                   |   |  |                          |  |
| Department of Land Affairs                             | 777 243                                 | 849 025                                | (696 589)                | 152 436  |
| Department of Local Government and Traditional Affairs | 9 101 371                               | 10 892 043                             | (2 523 244)              | 8 368 799                                      |
| Department of Sports Recreation Arts and Culture c/o   | 37 438                                  | 37 438                                 |                          | 37 438   |
| DEDEAT   | 3 745 411                               | 3 745 411                              | (199 168)                | 3 546 243                                      |
| European Commission                                    | 500 000                                 | 500 000                                | 0                        | 500 000  |
| Expanded Public Works Programme Incentives Grant       | 1 890 000                               | 1 890 000                              | 0                        | 1 890 000                                      |
| Finance Management Grant                               | 1 500 000                               | 1 500 000                              | 0                        | 1 500 000                                      |
| Greening Award ( Department of Environmental Affairs)  | 0                                       | 0                                      | 2 500 000                | 2 500 000                                      |
| Human Settlement Development Grant                     | 99 938 108                              | 142 523 295                            | 56 259 833               | 198 783 128                                    |
| Infrastructure Skills Development Grant                | 5 400 000                               | 5 400 000                              | 0                        | 5 400 000                                      |
| Leiden c/o   | 136 315                                 | 136 315                                | 0                        | 136 315  |
| Premiers Fund  | 67 421                                  | 67 421                                 |                          | 67 421   |
| Trust Funds  | 2 714 699                               | 2 714 699                              | 66 954                   | 2 781 653                                      |
| Umsobomvu Youth Fund                                   | 710 406                                 | 710 406                                | 34 179                   | 744 585  |
| Urban Settlement Development Grant                     | 33 464 500                              | 33 464 500                             | 800 000                  | 34 264 500                                     |
| Vuna Awards  | 1 048 758                               | 1 048 758                              | 0                        | 1 048 758                                      |
| <b>Total Grant Funding</b>                             | <b>161 031 670</b>                      | <b>205 479 311</b>                     | <b>56 241 965</b>        | <b>261 721 276</b>                             |
| <b>Total Funding</b>                                   | <b>210 971 670</b>                      | <b>288 437 823</b>                     | <b>53 483 180</b>        | <b>341 921 003</b>                             |

Operating projects is one of the vehicles that the municipality use to provide service delivery to the community. Due to the importance of the projects detailed analysis was undertaken to determine those projects that are having challenges and also identify those that are progressing at a pace that is above than original anticipation and therefore requiring additional funding. This was the base of re-allocating funding without compromising the municipality's strategic objectives and priorities as set up in the IDP. Details of reallocation of funding are provided in the detailed schedule of operating projects that is enclosed as annexure 1 of this report.

## 5.6 CAPITAL EXPENDITURE FRAMEWORK

The table below indicates adjustments to the capital expenditure budget per funding source. It shows a total increase of R112.3 million which is made of R116 million increase in own funding and a decrease of R3.8 million on conditional grants. The main contributor to the increase is additional funding from own funds for rehabilitation of existing roads within the metro amounting to R120 million. The funding will largely fund the shortfall on ongoing roads project which include; Upgrading of Mdantsane Roads, Gunubie Main Road, Rehabilitation of Rural Roads, Urban Roads Program.

The reduction of R6.4 million allocation from the Department of Energy for the electricity program as stated in section 5.3.2 above has resulted in a decrease in the electricity capital infrastructure program.

**Table 6: 2014/15 Adjustments to Capital Expenditure Budget**

| 2014/2015 CAPITAL PROJECTS<br>BUDGET PER FUNDING SOURCE   | 2014/2015                     | 2014/2015                    | 2014/2015          | 2014/2015              |
|---|-------------------------------|------------------------------|--------------------|------------------------|
|   | Approved<br>Capital<br>Budget | 2nd Adj<br>Capital<br>Budget | Adjustments        | Mid-Year Adj<br>Budget |
| <b>Own Funding</b>  |                               |                              |                    |                        |
| Own Funds   | 241 225 697                   | 276 725 697                  | 116 516 712        | 393 242 409            |
| Own Funds c/o   | 0                             | 55 139 872                   | (495 991)          | 54 643 881             |
| <b>Total Own Funding</b>                                  | <b>241 225 697</b>            | <b>331 865 569</b>           | <b>116 020 721</b> | <b>447 886 290</b>     |
| <b>Grant Funding</b>                                      |                               |                              |                    |                        |
| BCMET c/o   | 0                             | 256 818                      | 0                  | 256 818                |
| Department of Local Government and<br>Traditional Affairs | 188 726                       | 188 726                      | 0                  | 188 726                |
| DoE(Integrated National Electrification<br>Programme)     | 27 000 000                    | 27 000 000                   | (6 413 000)        | 20 587 000             |
| Department of Sports Recreation Arts<br>and Culture c/o   | 0                             | 2 686 285                    | 0                  | 2 686 285              |
| DEDEAT  | 0                             | 0                            | 199 168            | 199 168                |
| Leiden c/o  | 0                             | 458 860                      | 0                  | 458 860                |
| Human Settlement Development Grant                        | 18 600 000                    | 18 600 000                   | 12 895 081         | 31 495 081             |
| Infrastructure Skills Development<br>Grant                | 100 000                       | 100 000                      | 0                  | 100 000                |
| Neighbourhood Development<br>Partnership Grant            | 5 000 000                     | 5 000 000                    |                    | 5 000 000              |
| Urban Settlement Development Grant                        | 639 824 500                   | 639 824 500                  | (800 000)          | 639 024 500            |
| Human Settlement Development Grant<br>c/o                 | 0                             | 20 435 448                   | (273 172)          | 20 162 276             |
| Human Settlement Development<br>Grant-Special Fund        | 10 068 500                    | 10 068 500                   | (9 368 500)        | 700 000                |
| <b>Total Grant Funding</b>                                | <b>700 781 726</b>            | <b>724 619 137</b>           | <b>(3 760 423)</b> | <b>720 858 714</b>     |
| <b>Total Funding</b>                                      | <b>942 007 423</b>            | <b>1 056 484 706</b>         | <b>112 260 298</b> | <b>1 168 745 004</b>   |

The above table also indicate that the municipality has increased its own funding contribution on the capital budget to 38% (R448 million) of the total budget (R1.17 billion). This contribution is mainly for renewal of existing assets. On an annual basis the institution allocates an expense category for depreciation in the expenditure budget. This is a "non-cash" expenditure category which arises due to the allocation of the capital cost of the infrastructure asset over the expected useful life for the municipality. This funding is allocated specifically for the replacement of existing infrastructure assets that will reach the end of its useful life at a point in time in the future. It needs to be recognised that municipal infrastructure has in general an extremely long useful life which results in the accumulation of cash resources over time focused for one specific purpose (asset renewal). This accumulation which is reflected in the financial reports must be utilised for the replacement of existing infrastructure to allow for the continuation of service being offered to residents indefinitely into the future. It is allocated on a systematic basis to infrastructure which reaches the conclusion of its useful operational life and needs to be replaced.

Detailed analysis was undertaken to determine those projects that are having challenges and also identify those that are progressing at a pace that is above the original anticipation and therefore requiring additional funding. This was used as the basis for re-allocating funding without compromising the municipality's strategic objectives and priorities as set up in the IDP. Details of reallocation of funding are provided in the detailed schedule of capital projects that is enclosed as annexure 2 of this report.

## 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 an adjustments of R730 000 made to BCMM Sporting Vote to fund the shortfall that was caused by grant made by the municipality towards BCMM Boxing.

### 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;*

During implementation of SDBIP, there has been realignment of funding for operational efficiency. It is therefore necessary that the municipality's SDBIP be amended in line with the adjustments made in this budget. Adjustments made on the SDBIP targets affect the targets set in the IDP, to ensure alignment between these documents Section D of the IDP is also reviewed. When the IDP was adopted in May 2014 the baselines set were subject to confirmation at the end of the financial year. The baselines are reviewed to reflect the 13/14 actual performance e.g. kilometres of roads maintained had target for the year of 1200 and actual performance was 1221.64, etc.

Some targets in SDBIP are reduced due to change in the scope of work e.g. Settlers Way LSDF will be finalized in 15/16 financial year and construction of waste cells. The rehabilitation of two cells and preliminary designs will be achieved in the current financial year. There are cases where budget is not available in the current year to achieve the set targets e.g. conducting the quality of life survey, number of Heritage Sites upgraded for tourism marketing and number of tourism development projects implemented.

The revised section D (Annexure 3) and service delivery indicators and targets component of the SDBIP (Annexure 4) are attached and reviewed areas are highlighted for ease of reference.

#### **6.4 CHALLENGES**

The Institution is faced with a challenge of moving from a budgeted deficit to a surplus budget as a result of depreciation which is computed on the re-value of assets. However, in 2014/15 Mid-Year Adjustment budget the city managed to reduce the deficit from R21.3 million to R18.7 million.

#### **6.5 STAFF IMPLICATIONS**

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

#### **6.6 FINANCIAL IMPLICATIONS**

The adjustments to the 2014/15 Mid-Year Adjustment Budget do not have an impact on tariffs as these are funded from current savings and 2014/15 conditional grants rollover funding. The effects of the adjustments to the 2014/15 Capital and Operating Budget are outlined below:

- An increase in the Operational Revenue Budget of R81,889,357 from R4,789,868,293 to R4,871,757,646.
- An increase in the Operational Expenditure Budget of R79,262,630 from R4,811,166,587 to R4,890,429,217.
- An increase in the Capital Project Budget of R112,260,298 from R1,056,484,706 to R1,168,745,004.

#### **6.7 OTHER PARTIES CONSULTED**

All Directorates

**ANNEXURES:**

Annexure 1: Detailed Schedule of Operating Projects

Annexure 2: Detailed Schedule of Capital Projects

Annexure 3: Revised Section D of the IDP

Annexure 4: Revised SDBIP