



**BUFFALO CITY METROPOLITAN  
MUNICIPALITY**

**2016/2017 – MID-YEAR  
ADJUSTMENT BUDGET**

**28 FEBRUARY 2017**

## **REPORT TO COUNCIL: 28 FEBRUARY 2017**

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

Author: EXECUTIVE MAYOR (XOLA PAKATI)/AN

### **2016/17 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 2016/17 financial year in terms of section 28 of the MFMA.

#### **2. AUTHORITY**

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

MFMA Circular No. 78, 2015

#### **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 and Reporting Regulations (MBRR), 2009, (Reg. 23) “(1) *an adjustments budget referred to in Section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.*”

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

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

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

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

## **5. EXPOSITION OF FACTS**

The mid-year 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 Mid-Year Budget and Performance Assessment was tabled at Council on 25 January 2017. The main reason for this adjustment budget is the re-allocation of budget between capital and operating budget, votes, expenditure categories, to address operational efficiencies as well as appropriation of approved conditional grant roll-overs. The budget adjustment is also to approve virements that were requested by the directorates.

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

<b>OPERATING AND CAPITAL BUDGET EXPENDITURE</b>	<b>2016/2017 ADOPTED BUDGET YR1</b>	<b>2016/2017 ROLL OVER ADJ BUDGET</b>	<b>2016/2017 MID-YEAR ADJUSTMENTS</b>	<b>2016/2017 MID-YEAR ADJ BUDGET</b>	<b>2017/2018 ADOPTED BUDGET</b>	<b>2018/2019 ADOPTED BUDGET</b>
Total Operating Revenue	(5 906 770 453)	(5 905 139 163)	(38 317 435)	(5 943 456 598)	(6 379 358 789)	(6 993 842 508)
Total Operating Expenditure	5 905 692 358	5 904 061 068	38 317 435	5 942 378 503	6 377 690 955	6 991 086 875
Total Capital Expenditure	1 558 133 958	1 693 154 722	(201 706 747)	1 491 447 975	1 720 822 763	1 777 998 762
Total Opex & Capex Budget	7 463 826 316	7 597 215 790	(163 389 312)	7 433 826 478	8 098 513 718	8 769 085 637

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

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## ABBREVIATIONS AND ACRONYMS

AMR	Automated Meter Reading	kℓ	kilolitre
ASGISA	Accelerated and Shared Growth Initiative	km	kilometre
BCMM	Buffalo City Metropolitan Municipality	KPA	Key Performance Area
BSC	Budget Steering Committee	KPI	Key Performance Indicator
CBD	Central Business District	kWh	kilowatt hour
CFO	Chief Financial Officer	ℓ	litre
CM	City Manager	LED	Local Economic Development
CoGTA	Cooperative Government & Traditional Affairs	MBRR	Municipal Budgeting and Reporting Regulations
CPI	Consumer Price Index	MEC	Member of the Executive Committee
CRRF	Capital Replacement Reserve Fund	MFMA	Municipal Financial Management Act
DBSA	Development Bank of South Africa	MIG	Municipal Infrastructure Grant
GDP	Gross Domestic Product	MMC	Member of Mayoral Committee
DoRA	Division of Revenue Act	MPRA	Municipal Properties Rates Act
DWA	Department of Water Affairs	MSA	Municipal Systems Act
EE	Employment Equity	MSCOA	Municipal Standard Chart of Account
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
ICT	Information and Communication Technology	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 capital and operating budget, votes, expenditure categories and to address operational efficiencies. It also seeks to approve budget virements that were requested.

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 BUDGET EXPENDITURE	2016/2017 ADOPTED BUDGET YR1	2016/2017 ROLL OVER ADJ BUDGET	2016/2017 MID-YEAR ADJUSTMENTS	2016/2017 MID-YEAR ADJ BUDGET	2017/2018 ADOPTED BUDGET	2018/2019 ADOPTED BUDGET
Total Revenue	(5 906 770 453)	(5 905 139 163)	(38 317 435)	(5 943 456 598)	(6 379 358 789)	(6 993 842 508)
Total Operating Expenditure Excluding Operating Projects	5 576 672 326	5 576 672 326	28 796 790	5 605 469 116	6 003 837 027	6 453 326 825
Operating Projects	329 020 031	327 388 741	9 520 645	336 909 386	373 853 928	537 760 050
Total Operating Expenditure Including Operating Projects	5 905 692 358	5 904 061 068	38 317 435	5 942 378 503	6 377 690 955	6 991 086 875
<u>(Surplus) / Deficit</u>	(1 078 095)	(1 078 095)	0	(1 078 095)	(1 667 834)	(2 755 634)
<u>Total Capital Expenditure</u>	1 558 133 958	1 693 154 722	(201 706 747)	1 491 447 975	1 720 822 763	1 777 998 762
Total Opex and Capex Budget	7 463 826 316	7 597 215 790	(163 389 312)	7 433 826 478	8 098 513 718	8 769 085 637

The Honourable Minister of Finance presented his Medium Term Budget Policy Statement on 26 October 2016 which continued to reflect an unpleasing picture of slowed global and local economic growth, low consume index and higher inflation in many parts of the world. These factors are equally affecting Buffalo City community. This requires ongoing vigilance to reduce costs and become more efficient on daily operations. The City continues with its efforts of producing a surplus budget that is funded in line with National Treasury requirements. This adjustment budget remain stagnant at a surplus of R1.1 million before capital transfers recognised.



## **5.2 COUNCIL RESOLUTIONS**

On 30 May 2016 the Council of Buffalo City Metropolitan Municipality met to consider, approve and adopt the 2016/17 – 2018/19 MTREF Budget. The Council further met on 31 August 2016 to consider and approve the roll-over adjustment budget. In terms of Chapter 4, Section 28 (1) to (7) of the Municipal Finance Management Act No. 56 of 2003, “A municipality may adjust an approved budget through an adjustment budget.”

It is therefore recommended that:

- (a) The 2016/17 Mid-Year Adjustment Budget report be considered and approved by Council.
- (b) The adjustment from R5 905 139 163 to R5 943 456 598 of the 2016/17 Operating Revenue Budget be approved by Council.
- (c) The adjustment from R5 904 061 068 to R5 942 378 503 of the 2016/17 Operating Expenditure Budget be approved by Council.
- (d) The adjustment from R1 693 154 722 to R1 491 447 975 of the 2016/17 Capital Budget be approved by Council.

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**X. PAKATI**  
**EXECUTIVE MAYOR**

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**DATE**

### 5.3 EXECUTIVE SUMMARY

The Buffalo City Metropolitan Municipality is still taking cognisance of the economic challenges that are experienced by South African as cited by the Honourable Minister of Finance presented in his Medium Term Budget Policy Statement on 26 October 2016. The challenges are characterised by a protracted slowdown in trade, lower commodity prices and a high risk of external volatility. There is also continued structural constraints and low levels of investor confidence in the domestic economy, which have led to rising unemployment. The increase in unemployment in the BCMM demographic area has a direct impact on the revenue collection of the City, which affect the cash at hand required for municipal daily operations.

BCMM continues to take a more conservative approach in the manner in which it approaches the budgeting including this mid-year adjustment budget. This approach involved an intensive internal process of assessing and determining whether the budgeted programs and projects are responding to the City's strategic needs and priorities. This process further assessed the implementation readiness of the budgeted programs and projects and the re-allocation of the expenditure budget was informed by this assessment. The revenue budget was also assessed according to the services demand and consumers ability to pay. This assessment indicated that the billing of services is in line with the approved budget projections. However, the assessment also indicated low correction rate which requires urgent attention.

The key liquidity metrics are currently deemed to be adequate, however, if the collection rate does not improve, this will result in depletion of the cash holdings and reduction in liquidity ratios as well as cost coverage ratio

The debtor's collection rate for the average 12 months ending 31 December 2016 is 86% (2015/16: 90%). This rate is reflecting a decline is a result of various factors including staff disruptions that were a result of employee strike action. Having realised this, the City is currently implementing a number of mitigating factors to improve the collection rate which are as follows:

- Continued implementation of Credit Control Policy and By-law;

- Review of the Credit Control Policy and By-law;
- Implementation of Professional Project Manager to facilitate the collection of debt up to sale of execution stage;
- Electronic generated demands for arrear debt;
- Outbound telephone collection – Call Centre Operations;
- Implementation of Business Meter Audit Project;
- Improvement on billing accuracy;
- A new Meter Reading System is being implemented;
- Timeous resolution of Billing enquiries;
- Continued Customer Data Cleansing;
- Special Focus on both Business & Domestic Arrears Debtors;
- Disconnections and blockings on arrear pre-paid customers is being implemented;
- Avoid interruption of revenue services during industrial actions;
- General Valuation project has commenced, with valuation date being the 01 July 2017 and implementation date is the 01 July 2018;
- Indigent Management Program or a solution to effectively manage indigent such as data cleansing, household consumption monitoring etc.;
- Review of tariffs structure, for example, to consider the efficient use of demand and or availability charge for electricity.

In addition to the above revenue collection enhancement strategies, the following cost containment measure will be effected for the remaining months of the current financial year.

- Filling of vacant funded posts will be frozen till the end of the current financial year with the exception of critical posts.
- Improve procurement efficiency by taking advantage of procurement rationalisation through appointment of annual contractors in an improve demand management and take advantage of economies of scale.

The capital budget spending remain stagnant in percentage terms at 31% as at 31 December 2016 when compared to 31 December 2015. This, however, depicts an improvement in rand value terms (about R98 million) when compared to the same period in the previous financial year. The restructuring of the Bid Committees indicate that there have been some improvement in the procurement processes as more bids were awarded as at 31 December 2016 when compared to the same period in the previous financial year.

The operating revenue budget has been increased by R38 317 435 from R5 905 139 163 to R5 943 456 598 (refer to section 5.4 below for details). The operating expenditure budget has also increased by R38 317 435 from R5 904 061 068 to R5 942 378 503 (refer to section 5.5 below for details). The overall operating surplus before capital transfers recognised remains stagnant at R1 078 095. The capital budget has decreased by R201 706 747 from R1 693 154 722 to R1 491 447 975 (refer to section 5.6 below for details).

### 5.3.1 Budget Adjustment Summary

The main reason for this adjustment budget is the re-allocation of budget between capital and operating budget, votes, expenditure types, appropriate approved conditional grant roll-overs and ensure operational efficiencies. . It also seeks to approve budget virements that were requested The table below indicate the summary of the 2016/17 mid-year budget adjustments.

**Table 2: 2016/17 Mid-Year Adjustment Budget Summary**

OPERATING AND CAPITAL BUDGET EXPENDITURE	2016/2017	2016/2017	2016/2017	2016/2017	2017/2018	2018/2019
	ADOPTED	ROLL OVER	MID-YEAR	MID-YEAR	ADOPTED	ADOPTED
	BUDGET YR1	ADJ BUDGET	ADJUSTMENTS	ADJ BUDGET	BUDGET	BUDGET
Total Revenue	(5 906 770 453)	(5 905 139 163)	(38 317 435)	(5 943 456 598)	(6 379 358 789)	(6 993 842 508)
Total Operating Expenditure Excluding Operating Projects	5 576 672 326	5 576 672 326	28 796 790	5 605 469 116	6 003 837 027	6 453 326 825
Operating Projects	329 020 031	327 388 741	9 520 645	336 909 386	373 853 928	537 760 050
Total Operating Expenditure Including Operating Projects	5 905 692 358	5 904 061 068	38 317 435	5 942 378 503	6 377 690 955	6 991 086 875
<u>(Surplus) / Deficit</u>	(1 078 095)	(1 078 095)	0	(1 078 095)	(1 667 834)	(2 755 634)
<u>Total Capital Expenditure</u>	1 558 133 958	1 693 154 722	(201 706 747)	1 491 447 975	1 720 822 763	1 777 998 762
Total Opex and Capex Budget	7 463 826 316	7 597 215 790	(163 389 312)	7 433 826 478	8 098 513 718	8 769 085 637

## 5.4 OPERATING REVENUE FRAMEWORK

The following table (Table 3) depicts adjustments to the operating revenue budget per source. It reflects that there has been an increase in revenue totalling to R38.3 million. This is mainly due to increase in Transfers Recognised Operational which is caused by re-allocation of grant funding from Capital Budget to Operating Budget. Details of the transfers are provided in section 5.5.1 below.

**Table 3: 2016/17 Mid-Year Adjusted Revenue per Source**

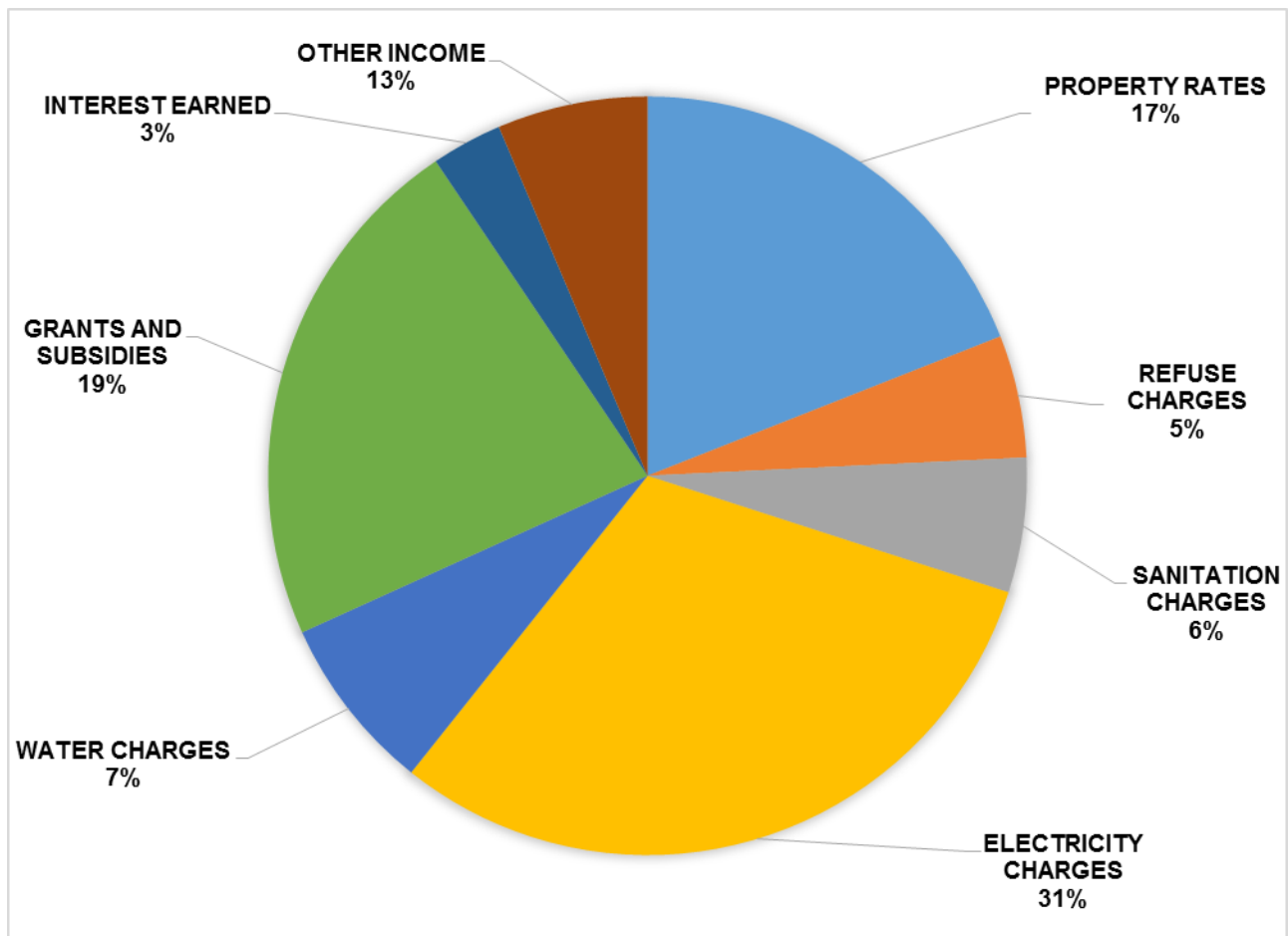
<b>2016/2017 MID-YEAR ADJUSTMENT BUDGET REVENUE FRAMEWORK</b>	<b>2016/2017 ADOPTED BUDGET</b>	<b>2016/2017 ROLL-OVER BUDGET</b>	<b>2016/2017 MID-YEAR ADJUSTMENTS</b>	<b>2016/2017 MID-YEAR BUDGET</b>	<b>2017/2018 ADOPTED BUDGET</b>	<b>2018/2019 ADOPTED BUDGET</b>
<b>Revenue Per Source</b>						
Property Rates	1 122 920 106	1 122 920 106	0	1 122 920 106	1 203 770 354	1 288 034 279
Electricity Charges	1 815 256 137	1 815 256 137	0	1 815 256 137	1 953 941 706	2 103 222 852
Water Charges	444 291 186	444 291 186	0	444 291 186	479 345 760	517 309 944
Sanitation Charges	339 107 134	339 107 134	0	339 107 134	364 540 169	390 787 061
Refuse Charges	308 375 397	308 375 397	0	308 375 397	331 503 552	355 371 808
Other Service Charges	21 580 186	21 580 186	0	21 580 186	23 133 959	24 753 336
Rental of facilities and equipment	20 045 086	20 045 086	0	20 045 086	21 488 332	22 992 515
Interest earned - external investments	143 775 020	143 775 020	0	143 775 020	152 689 071	161 697 726
Interest earned - outstanding debtors	34 650 686	34 650 686	0	34 650 686	37 256 677	40 021 217
Fines	8 385 278	8 385 278	0	8 385 278	8 989 018	9 618 249
Licences and permits	13 958 268	13 958 268	0	13 958 268	14 963 263	16 010 692
Transfers recognised - operational	1 319 728 331	1 318 097 041	38 317 435	1 356 414 476	1 450 381 060	1 703 052 050
Other revenue	314 697 638	314 697 638	0	314 697 638	337 355 867	360 970 778
<b>Total Direct Operating Income</b>	<b>5 906 770 453</b>	<b>5 905 139 163</b>	<b>38 317 435</b>	<b>5 943 456 598</b>	<b>6 379 358 789</b>	<b>6 993 842 508</b>

The pie chart (Figure 1) below depicts operating revenue budget per source. In terms of service revenue, electricity continues to be the main contributor to the revenue of the municipality by generating 31% of the total revenue. This is followed by water tariffs at 7%, sanitation 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 receives grants and subsidies totalling 19% of the total revenue, interest earned is 3% of the total revenue. Other revenue contributes 13% of the total revenue.

**Figure 1: 2016/17 Operating Revenue per Source**



## 5.5 OPERATING EXPENDITURE FRAMEWORK

The following table (Table 4) details adjustments to the operating expenditure budget per category. It reflects that there is a total increase of R38.3 million. There is a projected decrease of R5 million on Finance Charges which is a result of delays in securing the loan that was already budgeted for funding the East London Sewer Diversion Tunnel. Bulk Purchases indicate projected increase amounting to R10 million, this increase is funded by the R5 million saving from Finance Charges and a further saving of R5 million from Operating projects. An amount of R2.5 million has been re-allocated within employee related costs to fund support staff for ward councillors. The employee related costs have been decreased by R25 million which is a saving from vacant funded posts, this saving has been re-allocated to Other Expenditure to fund short fall on the Solid Waste Department on provision of Refuse Collection Service.

The unbundling of costs in line with mSCOA definitions has resulted in the following reclassification and or shifting of costs:

- An amount of R17.6 million has been reclassified to Transfers and Grants from Own Funded Operating Projects.
- A further amount of R6.2 million has been reclassified from Own Funded Operating Projects to Other Expenditure.
- An amount R16.5 million has been reclassified from Other Expenditure to Contracted Services.
- An amount of R3.8 million has also been reclassified from Other Expenditure to Repairs and Maintenance.

There has been an increase of R9.5 million on Operating Project which is detailed in section 5.5.1 below.

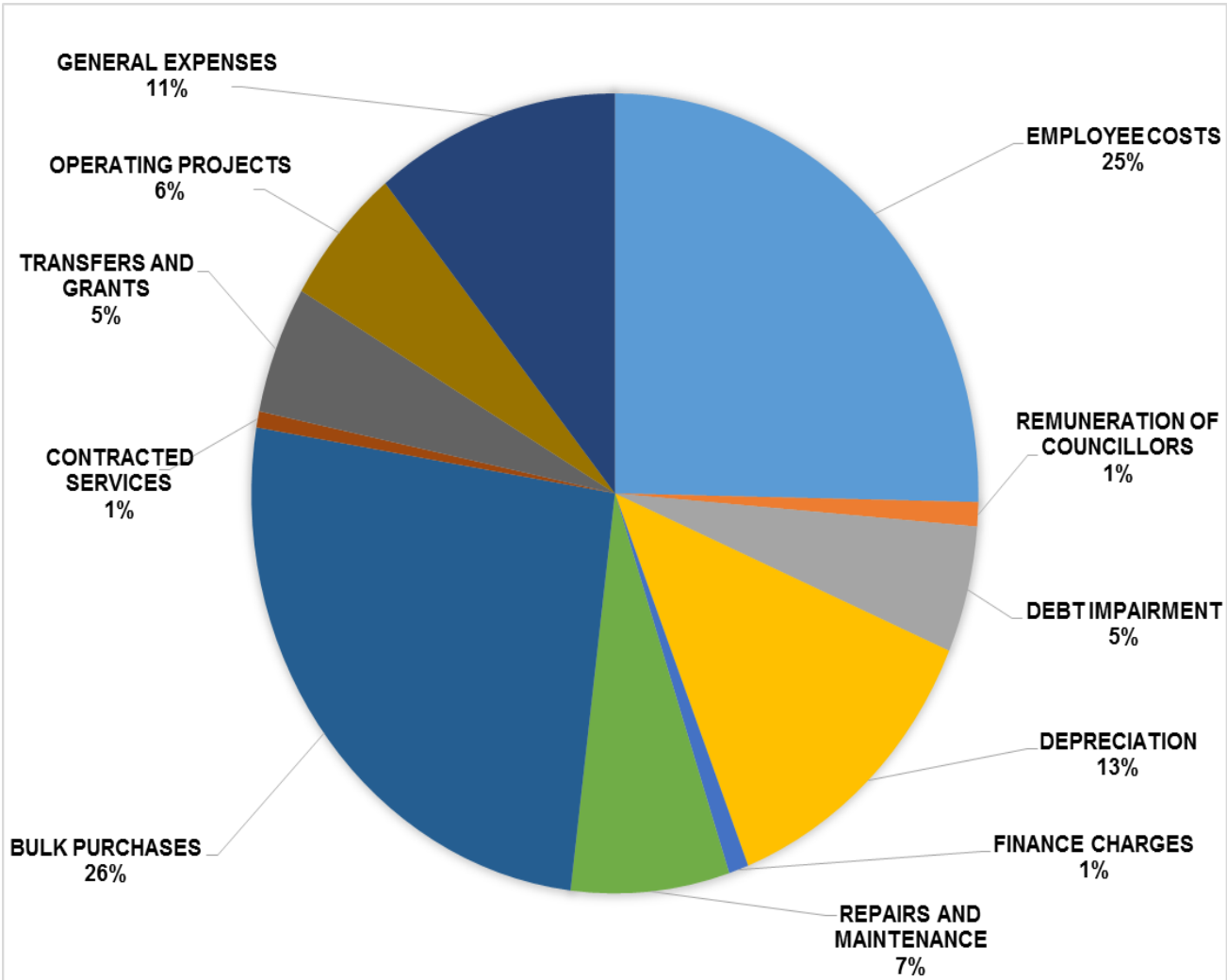


**Table 4: 2016/17 Mid-Year Adjusted Expenditure Budget per Category**

<b>2016/2017 MID-YEAR ADJUSTMENT BUDGET EXPENDITURE FRAMEWORK</b>	<b>2016/2017</b>	<b>2016/2017</b>	<b>2016/2017</b>	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/2019</b>
	<b>ADOPTED</b>	<b>ROLL-OVER</b>	<b>MID-YEAR</b>	<b>MID-YEAR</b>	<b>ADOPTED</b>	<b>ADOPTED</b>
	<b>BUDGET</b>	<b>BUDGET</b>	<b>ADJUSTMENTS</b>	<b>BUDGET</b>	<b>BUDGET</b>	<b>BUDGET</b>
<b><u>Expenditure Per Category</u></b>						
Employee related costs	1 531 068 329	1 531 068 329	(25 000 000)	1 506 068 329	1 641 305 249	1 754 555 311
Remuneration of councillors	58 098 804	58 098 804	0	58 098 804	62 281 917	66 579 370
Debt impairment	303 864 761	303 864 761	0	303 864 761	326 717 663	350 960 946
Depreciation & asset impairment	748 339 019	748 339 019	0	748 339 019	794 736 038	841 625 464
Finance charges	57 105 142	57 105 142	(5 000 000)	52 105 142	70 938 326	85 887 474
Bulk purchases	1 521 587 433	1 516 587 433	10 000 000	1 526 587 433	1 645 567 264	1 779 730 216
Contracted services	22 486 459	22 486 459	16 473 514	38 959 973	23 880 620	25 289 576
Transfers and grants	288 467 764	288 467 764	17 600 000	306 067 764	310 162 696	333 177 559
Repairs and Maintenance	414 790 827	414 790 827	3 818 309	418 609 136	456 269 909	501 896 900
Operating projects	329 020 031	327 388 741	9 520 645	336 909 386	373 853 928	537 760 050
Other expenditure	630 863 789	635 863 789	10 904 967	646 768 756	671 977 344	713 624 008
<b><u>Total Direct Operating Expenditure</u></b>	<b>5 905 692 358</b>	<b>5 904 061 068</b>	<b>38 317 435</b>	<b>5 942 378 503</b>	<b>6 377 690 955</b>	<b>6 991 086 875</b>

The pie chart (Figure 2) below depicts split of operating expenditure budget per category. Employee costs and Bulk Purchases represent the largest cost of the municipality 25% and 26% of the total operating expenditure respectively. Depreciation totals 13% of the total cost base for the institution. This represents the proportional funding requirements for the replacement of existing infrastructure assets. General Expenses/Other Expenditure account got 11% of the total operating budget. The main contributor for Operating projects at 6% 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. Transfers and Grants paid which is mainly made up of indigent subsidy paid, account for 5%. Debt impairment also account for 5%. Finance Charges, Contracted Services and Remuneration of Councillors each account for 1%.

**Figure 2: 2016/17 Operating Expenditure per Type**



### **5.5.1 Mid-Year Budget Adjustment on Operating Projects**

The following tables (table 5 and 6) tabulates adjustments to the operating projects expenditure budget per funding source and per directorate respectively. It shows a total increase of R9.5 million which is made up of an increase of R38.3 million from Conditional Grant Funding that has been reallocated from Capital Budget to Operating Budget and a decrease of Own Funded Projects amounting to R28.7 million. The following summarises the decrease on own funding as reflected on table 5 below (Detailed schedule of operating projects is attached as annexure 1):

- A decrease of R17.6 million relates to an amount that has been transferred from Own Funded Operating Projects to Transfers and Grants for better classification of the expenditure.
- A decrease of R6.2 million also relates to an amount that has been transferred from Own Funded Projects to Other Expenditure for better classification of the expenditure.
- A decrease of R5 million which was identified as a saving that has been re-allocated to Bulk Purchases to partly fund the projected increase on Bulk Purchases.

The following summarises the increase on grant funding as depicted on table 5 below (Detailed schedule of operating projects is attached as annexure 1):

- An increase on Human Settlement Development Grant amounting to R20 million (re-allocated from Reeston Phase 3 Stage 3 capital project as this project is under litigation, re-allocated to Operating Projects - Disaster Project Tsholomnqa: R10 million and Peulton Cluster : R10 million).
- An increase on Urban Settlement Development Grants amounting to R13.3 million (re-allocated to Operating Projects – Municipal Services Construction and Rehabilitation of Waste Cells – Operations from Construction and Rehabilitation of Waste Cells – Capital).
- An increase on Public Transport Infrastructure and Systems Grant amounting to R5 million (re-allocated to Operating Projects – Spatial Planning and Development to fund Development / Review of Integrated Transport Operational Plan, re-allocated from Integrated Transport Plan Implementation Programme).
- An increase of R229 000 from Galve funding (re-allocated from Capital Budget – Gracia Flats Fencing to International Project Activities).

- An increase of Finance Management Grant amounting R50 000 (re-allocated from Office Furniture and Computer Equipment for intern to Training).
- A decrease of IEC grant funding that amount to R261 565 (budget correction).

**Table 5: 2016/17 Mid-Year Adjustments to Operating Projects - Funding Source**

2016/2017 OPEX PROJECTS BUDGET PER FUNDING SOURCE	2016/2017 Approved Opex Budget	2016/2017 Roll-Over Opex Budget	2016/2017 Mid-Year Adjustments	2016/2017 Mid-Year Adj Opex Budget	2017/2018 Adopted Opex Budget	2018/2019 Adopted Opex Budget
<b>Own Funding</b>						
Own Funds	112 519 700	112 519 700	(29 405 080)	83 114 620	99 427 868	123 060 000
Own Funds c/o	0	0	608 290	608 290	0	0
<b>Total Own Funding</b>	<b>112 519 700</b>	<b>112 519 700</b>	<b>(28 796 790)</b>	<b>83 722 910</b>	<b>99 427 868</b>	<b>123 060 000</b>
<b>Grant Funding</b>						
City of Oldenburg	495 761	495 761	0	495 761	0	0
Department of Public Works	2 469 600	2 469 600	0	2 469 600	0	0
Expanded Public Works Programme Incentives Grant	1 188 000	1 188 000	0	1 188 000	0	0
Finance Management Grant	1 200 000	1 200 000	50 000	1 250 000	1 200 000	900 000
Galve c/o	0	0	229 000	229 000	0	0
Glasgow	0	89 858	0	89 858	0	0
Human Settlement Development Grant	123 802 000	123 802 000	20 000 000	143 802 000	196 100 000	297 500 000
Human Settlement Development Grant c/o	0	1 017 287	0	1 017 287	0	0
Infrastructure Skills Development Grant	8 900 000	8 900 000	0	8 900 000	10 900 000	11 900 000
IEC c/o	0	261 565	(261 565)	0	0	0
Public Transport Infrastructure and Systems Grant	0	0	5 000 000	5 000 000	0	0
Transnet	3 000 000	0	0	0	3 000 000	0
Urban Settlement Development Grant	75 444 970	75 444 970	13 300 000	88 744 970	63 226 060	104 400 050
<b>Total Grant Funding</b>	<b>216 500 331</b>	<b>214 869 041</b>	<b>38 317 435</b>	<b>253 186 476</b>	<b>274 426 060</b>	<b>414 700 050</b>
<b>Total Funding</b>	<b>329 020 031</b>	<b>327 388 741</b>	<b>9 520 645</b>	<b>336 909 386</b>	<b>373 853 928</b>	<b>537 760 050</b>

**Table 6: 2016/17 Mid-Year Adjustments to Operating Projects - Directorate**

2016/2017 OPEX PROJECTS BUDGET PER DIRECTORATE	2016/2017	2016/2017	2016/2017	2016/2017	2017/2018	2018/2019
	Approved	Roll-Over	Mid-Year	Mid-Year Adj	Adopted	Adopted
	Opex Budget	Opex Budget	Adjustments	Opex Budget	Opex Budget	Opex Budget
<b>Directorate</b>						
Directorate of Executive Support Services	6 550 000	6 639 858	(6 071 000)	568 858	4 000 000	3 000 000
Directorate of the City Manager	27 422 970	27 684 535	5 251 400	32 935 935	22 926 060	26 600 050
Directorate of Human Settlement	126 302 000	127 319 287	19 650 245	146 969 532	198 600 000	299 750 000
Directorate of Financial Services	53 449 700	53 449 700	(9 350 000)	44 099 700	47 337 868	21 900 000
Directorate of Corporate Services	8 900 000	8 900 000	0	8 900 000	10 900 000	11 900 000
Directorate of Infrastructure Services	54 495 761	54 495 761	(2 000 000)	52 495 761	44 500 000	89 500 000
Directorate of Spatial Planning and Development	1 250 000	1 250 000	5 000 000	6 250 000	1 450 000	1 500 000
Directorate of Economic Development & Agencies	36 500 000	33 500 000	(12 630 000)	20 870 000	37 000 000	64 000 000
Directorate of Health & Public Safety	3 599 600	3 599 600	(2 599 600)	1 000 000	1 390 000	3 610 000
Directorate of Municipal Services	10 550 000	10 550 000	12 269 600	22 819 600	5 750 000	16 000 000
<b>Total Directorates</b>	<b>329 020 031</b>	<b>327 388 741</b>	<b>9 520 645</b>	<b>336 909 386</b>	<b>373 853 928</b>	<b>537 760 050</b>

## 5.6 CAPITAL EXPENDITURE FRAMEWORK

The tables (table 7 and 8) below indicates adjustments to the capital expenditure budget per funding source and per directorate respectively. It shows a total decrease of R201.7 million which is made of R69.6 million decrease on own funding (Loan) and R132.1 million on grant funding. The following summarises the decrease on own funding as indicated in table 7 below (Detailed schedule of capital projects is attached as annexure 2):

- Decrease in own funding (Loan) amounting to R69,6 million – the loan to fund the East London Sewer Diversion Project has not yet been secured, project to be implemented in the following financial year.

The following summarises the decrease on grant funding of R132.1 million as reflected in table 7 below (Detailed schedule of capital projects is attached as annexure 2):

- A decrease on Human Settlement Development Grants of R106 million (R20 million is re-allocated to Operating Projects (as detailed in section 5.5.1 above) and R86 million is given up due to various Human Settlement Projects that are under litigation).
- A reduction of R13.3 million on Urban Settlement Development Grant, funding re-allocated to Operating Projects under Municipal Services for Construction and Rehabilitation of Waste Cells – Operations Project.
- A decrease on Public Transport Infrastructure and Systems Grant of R5 million, the funding is re-allocated to Operating Project under Spatial Planning and Development to fund the Development / Review of Integrated Transport Operational Plan.
- A reduction on Neighbourhood Development Partnership Grant of R19.3 million, the funding has been taken off the budget as National Treasury is not approving the allocation due to late approval of the City's precinct plan.
- An increase of R11.6 million for Integrated National Electrification Programme which is a roll-over that has been approved by National Treasury from the previous financial year.

**Table 7: 2016/17 Mid-Year Adjustments to Capital Expenditure Budget - Funding**

<b>2016/2017 CAPITAL BUDGET PER FUNDING</b>	<b>2016/2017 Approved Capital Budget</b>	<b>2016/2017 Roll-Over Adj Capital Budget</b>	<b>2016/2017 Mid-Year Adjustments</b>	<b>2016/2017 Mid-Year Adj Capital Budget</b>	<b>2017/2018 Adopted Capital Budget</b>	<b>2018/2019 Adopted Capital Budget</b>
<b>Own Funding</b>						
Own Funds	640 283 103	648 881 661	48 794 444	697 676 105	638 685 218	631 622 100
Own Funds c/o	0	112 317 649	(48 794 444)	63 523 205	0	0
Loan	69 581 825	69 581 825	(69 581 825)	(0)	189 351 605	176 866 712
<b>Total Own Funding</b>	<b>709 864 928</b>	<b>830 781 135</b>	<b>(69 581 825)</b>	<b>761 199 310</b>	<b>828 036 823</b>	<b>808 488 812</b>
<b>Grant Funding</b>						
BCMET	0	0	487 499	487 499	0	0
DoE(Integrated National Electrification Programme)	25 000 000	25 000 000	0	25 000 000	30 000 000	30 000 000
DoE(Integrated National Electrification Programme) c/o	0	0	11 612 579	11 612 579	0	0
DEDEAT c/o	0	199 168	0	199 168	0	0
DRSAC c/o	0	4 411 277	0	4 411 277	0	0
Electricity Demand Side Management Grant	0	0	0	0	5 000 000	3 000 000
Finance Management Grant	100 000	100 000	(50 000)	50 000	100 000	100 000
Galve c/o	0	458 000	(229 000)	229 000	0	0
Infrastructure Skills Development Grant	100 000	100 000	0	100 000	100 000	100 000
Integrated City Development Grant	6 080 000	6 080 000	0	6 080 000	10 829 000	11 457 000
Local Government & Traditional Affairs c/o	0	9 036 112	0	9 036 112	0	0
Neighbourhood Development Partnership Grant	19 346 000	19 346 000	(19 346 000)	0	24 979 000	49 525 000
Urban Settlement Development Grant	656 054 030	656 054 030	(13 300 000)	642 754 030	710 975 940	708 934 950
Human Settlement Development Grant	106 300 000	106 300 000	(106 300 000)	0	50 635 000	0
Public Transport Infrastructure Grant	35 289 000	35 289 000	(5 000 000)	30 289 000	60 167 000	166 393 000
<b>Total Grant Funding</b>	<b>848 269 030</b>	<b>862 373 588</b>	<b>(132 124 922)</b>	<b>730 248 666</b>	<b>892 785 940</b>	<b>969 509 950</b>
<b>Total Funding</b>	<b>1 558 133 958</b>	<b>1 693 154 722</b>	<b>(201 706 747)</b>	<b>1 491 447 975</b>	<b>1 720 822 763</b>	<b>1 777 998 762</b>

**Table 8: 2016/17 Mid-Year Adjustments to Capital Expenditure Budget - Directorate**

<b>2016/2017 CAPITAL BUDGET PER DIRECTORATE</b>	<b>2016/2017 Approved Capital Budget</b>	<b>2016/2017 Roll-Over Adj Capital Budget</b>	<b>2016/2017 Mid-Year Adjustments</b>	<b>2016/2017 Mid-Year Adj Capital Budget</b>	<b>2017/2018 Adopted Capital Budget</b>	<b>2018/2019 Adopted Capital Budget</b>
<b>Directorate</b>						
Directorate of Executive Support Services	5 500 000	8 007 062	(1 429 000)	6 578 062	500 000	500 000
Directorate of the City Manager	17 521 500	52 521 500	26 300 000	78 821 500	31 678 100	19 000 000
Directorate of Human Settlement	202 441 082	211 477 194	(70 697 742)	140 779 452	190 530 454	198 127 200
Directorate of Financial Services	600 000	747 535	8 050 000	8 797 535	600 000	600 000
Directorate of Corporate Services	7 100 000	9 033 820	(4 500 000)	4 533 820	2 100 000	600 000
Directorate of Infrastructure Services	887 670 580	902 030 379	(31 098 335)	870 932 044	1 059 352 769	1 010 629 252
Directorate of Spatial Planning and Development	230 290 051	230 417 219	(38 985 669)	191 431 550	259 450 000	331 918 000
Directorate of Economic Development & Agencies	44 500 000	54 734 025	(970 000)	53 764 025	45 500 000	57 500 000
Directorate of Health & Public Safety	30 032 401	46 483 912	(16 718 743)	29 765 169	19 817 400	11 618 520
Directorate of Municipal Services	122 478 344	167 702 076	(71 657 258)	96 044 818	101 294 040	137 505 790
<b>Total Directorates</b>	<b>1 548 133 958</b>	<b>1 683 154 722</b>	<b>(201 706 747)</b>	<b>1 481 447 975</b>	<b>1 710 822 763</b>	<b>1 767 998 762</b>
Asset Replacement	10 000 000	10 000 000	0	10 000 000	10 000 000	10 000 000
<b>GRAND TOTAL</b>	<b>1 558 133 958</b>	<b>1 693 154 722</b>	<b>(201 706 747)</b>	<b>1 491 447 975</b>	<b>1 720 822 763</b>	<b>1 777 998 762</b>

To arrive in the adjustments that are summarised in the above two tables (table 7 and 8), a 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 no new allocations or grants made by the municipality. The adjustments on Transfers and Grants is merely the reclassification of expenditure to more accurately align to mSCOA definitions.

### **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 quarterly reviews held with Directorates and Auditor General's audit process, areas were identified that require either adjustment or removal. The reasons for these changes are that they either did not adhere to the CREAM (Clear, Relevant, Economical, Adequate and Maintainable) principle, not aligned to the current financial year IDP or too operational.

The budget adjustment process relates among other things to change in the capital budget which therefore has an impact on service delivery targets e.g. In the Spatial Planning and Development Directorate, KPI:- Number of pedestrian bridges constructed

was adjusted due to delays of procurement processes which will result in no bridges constructed in 2016/17 financial year.

During quarterly review Internal Audit recommended that some targets needs adjustment or removal as they did not adhere to the SMART principle and too operational e.g. KPI Development of Human Resource Development (HRD) Policy have been removed from the section D of the IDP and will be measured in the scorecard of the responsible manager. The issue of alignment of IDP and SDBIP came strongly during 1<sup>st</sup> Quarter Internal Audit Report and affected a number of indicators which had to be revised for ease of reference see the attached addendums.

The revised section D (Annexure 3) and service delivery indicators and targets component of the SDBIP (Annexure 4) and Addendums (addendum to Section D of the IDP is enclosed as Annexure 5, addendum to the SDBIP is enclosed as Annexure 6) with disclaimers are attached for ease of reference. Reviewed areas of service delivery indicators and targets are all marked.

#### **6.4 CHALLENGES**

None

#### **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 mid-year adjustments to the 2016/17 budget do not have an impact on tariffs as these are funded from current operating revenue that was already approved by Council, conditional grants and own funding reserves. The effects of the adjustments to the 2016/17 Capital and Operating Budget are outlined below:

- An increase in the Operational Revenue Budget of R38 317 435 from R5 905 139 163 to R5 943 456 598.
- An increase in the Operational Expenditure Budget of R38 317 435 from R5 904 061 068 to R5 942 378 503.
- A decrease in the Capital Budget of R201 706 747 from R1 693 154 722 to R1 491 447 975.

## **6.7 OTHER PARTIES CONSULTED**

All Directorates

**6.8 CITY MANAGER’S QUALITY CERTIFICATE**

I **A. S. Naidoo**, Acting City Manager of Buffalo City Metropolitan Municipality, hereby certify that the annual 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 \_\_\_\_\_

Acting City Manager of Buffalo City Metropolitan Municipality (BUF)

Signature \_\_\_\_\_

Date \_\_\_\_\_

**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

Annexure 5: Addendum to Section D of the IDP

Annexure 6: Addendum to the SDBIP

Annexure 7: B Schedules