

**2015-2016**  
**ADJUSTMENT BUDGET**  
**REPORT**  
**28 FEBRUARY 2016**



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## **PURPOSE OF THE REPORT**

To seek approval from Council on the adjustments proposed to the 2015/2016 original Operational and Capital Budget.

To set out the options available to Council to fund the adjusted capital budget and to improve the municipality's cash flow position.

## **LEGISLATIVE BACKGROUND**

Section 72(3) of the MFMA requires that the Accounting Officer must as part of the (mid year) review:

- (a) Make recommendations as to whether an adjustments budget is necessary; and
- (b) Recommend revised projections for revenue and expenditure to the extent that this may be necessary.

In addition, Regulation 23(3) of the Municipal Budget and Reporting Regulations requires that if a National or Provincial Adjustments Budget allocates or transfers additional revenues to a municipality, the Mayor of the municipality must, at the next available Council meeting, but within 60 days of the approval of the relevant National or Provincial Adjustments Budget, table an Adjustments Budget referred to in Section 28(2)(b) of the MFMA in the municipal council to appropriate these additional revenues.

In terms of Section 28(2) of the MFMA, 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 programs already budgeted for;
- c) May, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the Mayor or the municipality;
- d) May authorize the utilization of projected savings in one vote towards spending under another vote;
- e) May authorize 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 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.

Regulation 21 of the Municipal Budget and Reporting Regulations states that an Adjustments Budget and supporting documentation of a municipality must be in the format specified in Schedule B and include all the tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of Section 168(1) of the Act.

Regulation 22 of the Municipal Budget and Reporting Regulations further states that

- 1) an adjustments budget must be appropriately funded and
- 2) the supporting documentation tabled in a municipal council in terms of Section 28(5) of the Act must contain an explanation of how the adjustments budget is funded.

When processing virements in the annual budget, the municipality should consider MFMA Circular No. 51 and ensure that the virements are made in accordance with the municipality's approved virements policy. The following principles should be adhered to:

- virements should not be permitted in relation to the revenue side of the budget;
- virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management;
- virements from the capital budget to the operating budget should not be permitted;
- virements to or from the following items should not be permitted: bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue foregone, insurance and VAT;
- virements should not result in adding 'new' projects to the Capital Budget;
- virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and
- there should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5% of the budget may be moved to or from a vote, program, project etc.)

Only the Mayor may table an Adjustments budget in the municipal council. When an adjustments budget is tabled it must be accompanied by-

- a) An explanation of 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;
- d) Any other supporting documentation that may be prescribed.

## MAYOR'S REPORT

2015/2016 Adjustments budget presentation by her worship the Mayor, Councillor PN Khaba, at Abaqulusi Council Chambers, on February 2016

Mr Speaker, I wish to present an overview of the adjustment budget for the 2015/2016 budget year. This adjustment document is prepared in terms of the Municipal Budget and Reporting Regulations.

With the tabling and approval of the 2015/2016 budget, a strong focus was placed on Service Delivery and fighting poverty.

It is important to state that focus of the adjustment budget was on the result of the Mid-year review where the concentration on the performance management of each department looking at the mid-year expenditure against the budget.

The adjustment budget has been prepared in such a way that value for money and sustainability are key considerations. It is important to note that expenditure required to address the challenges facing the municipality and our communities will always exceed the available funding, hence difficult choices have been made in balancing expenditure against realistically anticipated revenue as stipulated in Section 18 of the MFMA.

### **MID-YEAR BUDGET ASSESSMENT**

The following observations were made during the mid-year budget assessment report that was tabled to Council in January 2016.

#### **Operating Budget Revenue**

The municipality has collected 97,55% of the property rates compared to the approved budget at mid-year which is R30,198 million collected against a budget of R30,955 million.

Revenue from service charges is under collected as follows:

Revenue from electricity actual is 94,67% or R81,774 million and budget of R86,376 million

Revenue from water actual is 80,07% or R20,133 million and budget of R25,145 million

Revenue from sanitation is 96,88% or R11,975 million and budget of R12,342 million

Revenue from refuse collection is 94,91% or R8,655 million and budget of R9,119 million

Should the drought continue or worsen and the municipality is forced to shut off the water supply, consumers cannot be charged for water or sanitation. This will severely impact on the expenditure for the municipality as the estimated revenue for 6 months for water and sanitation is R30 million.

The collection of revenue from fines is only 27, 08% or R407 thousand compared to a budget of R1, 5 million.

Revenue collected for licences and permits amounts to 89, 95% or R2, 041 million compared to the mid-year budget of R2, 269 million

Revenue from investments is 56, 61% or R964 thousand compared to a mid-year budget of R1, 7 million this is due to investments that had to be withdrawn for the job evaluation outcome.

Other own revenue from Community Services and Development Planning is 52, 98% or R3, 593 million compared to the mid-year budget of R6, 782 million

In total only 78, 31% of revenue or R157, 274 million compared to the budget of R200, 831 million has been received.

## **Expenditure**

The actual expenditure for the first 6 months is 87, 79% or R223, 934 million against the approved budget of R255, 082 and this is attributed to:

- Employee costs of 108,6% due to excessive overtime and employees salaries still being rectified to TASK
- Bulk purchases of 88,93% which is due to Eskom accounts being paid 1 month in arrears so only 5 accounts have been paid in the 1<sup>st</sup> six months of the year
- Free basic services are 135,17% due to the increased amount of consumers applying for indigent status
- To date only 29, 66% has been spent on Repairs and Maintenance, however there are outstanding orders amounting to R4, 5 for services that still need to be paid which will increase the percentage spent.
- S&T to date is 72, 3% of the total budget and departments will have to be more selective in the 2<sup>nd</sup> half of the year on which meetings/trainings are important.

## **Main Challenges**

- The ongoing drought which will result in a loss of income from service charges and impact severely on expenditure
- One of the main challenges being experienced is the need to reprioritize projects and high expenditure rate given the cash flow realities and declining cash position of the municipality
- The on-going growing of the debtor ageing and indigent register

- Ageing infrastructure for water, sanitation, roads and electricity as well as limited resources due to strikes and vacancies within the departments
- Continuous high tariff increases making services no longer affordable
- Affordability of capital own funded capital projects, original allocations have to be reduced during the current year and factored where possible into the following financial year placing a further burden on the draft budget

## **Highlights**

- The municipality again obtained an unqualified audit opinion and is now focusing on the outstanding items to obtain a clean audit.
- During the 1<sup>st</sup> half of the year the capital projects from MIG and DoE are nearly complete for this financial year.
- The municipality purchased a new 10MVA transformer for eMondlo at the beginning of July.
- The municipality has obtained a further R750,000 from COGTA to support the municipality with the operational functionality of the Community Service Centre in eMondlo

I would like to thank all members of this Council, including all representatives of all political parties and all members of the administration for their contributions made. A budget is defined as “a plan for spending money wisely” and the administration under the Acting Municipal Manager and especially the CFO and his team are trying to install strict fiscal discipline. I would further like to thank all members of the public who assisted and took part in putting the municipality on the winning path. Every input, suggestion and all active participation is valued. Abaqulusi Municipality is an example of what can be achieved with a partnership of an active and participating community and a responding Council. We dare never forget that this is the purpose of local government and that we are mere servants placed here to serve our community. I would also like to thank all sectors of the community who still need upgrading of services and facilities who have been patiently waiting with us to achieve it.

Mr Speaker I am humbled by the huge task entrusted to me as leader of this Council, and the opportunity to table this Adjustment Budget to better serve our people. My team and I would like to ensure every citizen of Abaqulusi that we shall work tirelessly and leave no stone unturned to create a community of excellence for all with the funds entrusted to us.

Speaker, in the item serving before Council the recommendations are set out as recommended in the Adjustment Budget item. I herewith formally submit recommendations to Council for consideration and approval of the 2015/2016 adjustments budget.

**COUNCILLOR P N KHABA**  
**MAYOR**

## **RESOLUTIONS**

1. That the operational expenditure budget be adjusted from R 476,6 million to R 490 million
2. That the revenue budget be adjusted from R 511,7 million to R 490 million including capital transfers and contributions
3. That the capital budget from grant funding is adjusted by R2 million due to additional funds being received from the Integrated National Electrification Program grant
4. That the payment levels remain at 92%
5. To implement and monitor the cash flow turnaround strategy to improve effective financial management
6. To monitor collection levels during the remaining budget period to ensure that funding is available to finance expenditure
7. That under no circumstances should expenditure be incurred that is not budgeted for. Disciplinary action be taken against the person liable for that unbudgeted expenditure
8. That, in compliance with the MFMA the financial results regarding the operating and capital budgets for the Adjustment Budget of the 2015/2016 financial year, and supporting documents as required by National Treasury (Schedule B) be submitted to Council for approval.
9. This report be submitted to the National Treasury and the relevant Provincial Treasury **within five days** of tabling of the report in the council, in both a Council approved document and in electronic format.
10. The Planning Section of Finance does the necessary adjustments to the Revenue & Expenditure **Budgets** on the Munsoft Financial System and all line items under General Expenditure be blocked

## EXECUTIVE SUMMARY

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's service delivery priorities were reviewed as part of the planning and adjustment budget process. A critical review was undertaken of expenditure on non-essential and 'nice-to-have' items. The Adjustment Budget for 2015/16 is based on the realisation that revenues and cash flows are expected to remain under pressure and the municipality must adopt a conservative approach when projecting expected revenues and cash receipts.

The Adjustment budget was compiled by ensuring that the financial management processes are transparent, aligned to the accountability cycle and facilitate good governance that is accountable to the local community. Public perception shows high levels of unhappiness with service delivery and perceived corruption at municipalities and sound leadership is required as well as measures put in place to address mismanagement by implementing effective systems to measure, monitor and evaluate performance.

During the approval of the 2015/2016 budget we had advised that the cash collection rate may still feel the impact from the financial recession the country experienced. In the previous financial year the collection rate was 95, 41% and for the six months of this financial year it has increased to 99, 77%.

Some of the anticipated own revenue collection on trading services (e.g. Electricity & Waste Management) has not materialised as projected.

Under collection has been experienced from other sources that do not involve grant & trading services.

In keeping with National Treasury Circulars regarding the managing of costs, reductions have been made on costs which are not urgent in the current financial year, or in the short term, have been deferred to the next financial year should resources be available. The reductions affect costs such as conferences/lunches/strategic planning workshops, repairs & maintenance, salaries and allowances.

### **Current funding compliance assessment information**

The audit outcomes relate to the past performance of a municipality and provide a good indication on the state of municipal financial management rather than the state of municipal finances.

The following key financial management objectives are used:

- a) Short term viability and consideration of whether the community is 'paying its way' relative to economic benefits received;
- b) Medium and long term sustainability; ensuring that the broader community maintains control over outcomes within appropriate levels of affordability;

- c) Achievement of community aspirations and service delivery goals;
- d) Maintenance of a good credit rating and minimising financing costs; and
- e) Achieving and maintaining key prudential measurements; e.g. borrowing limits.

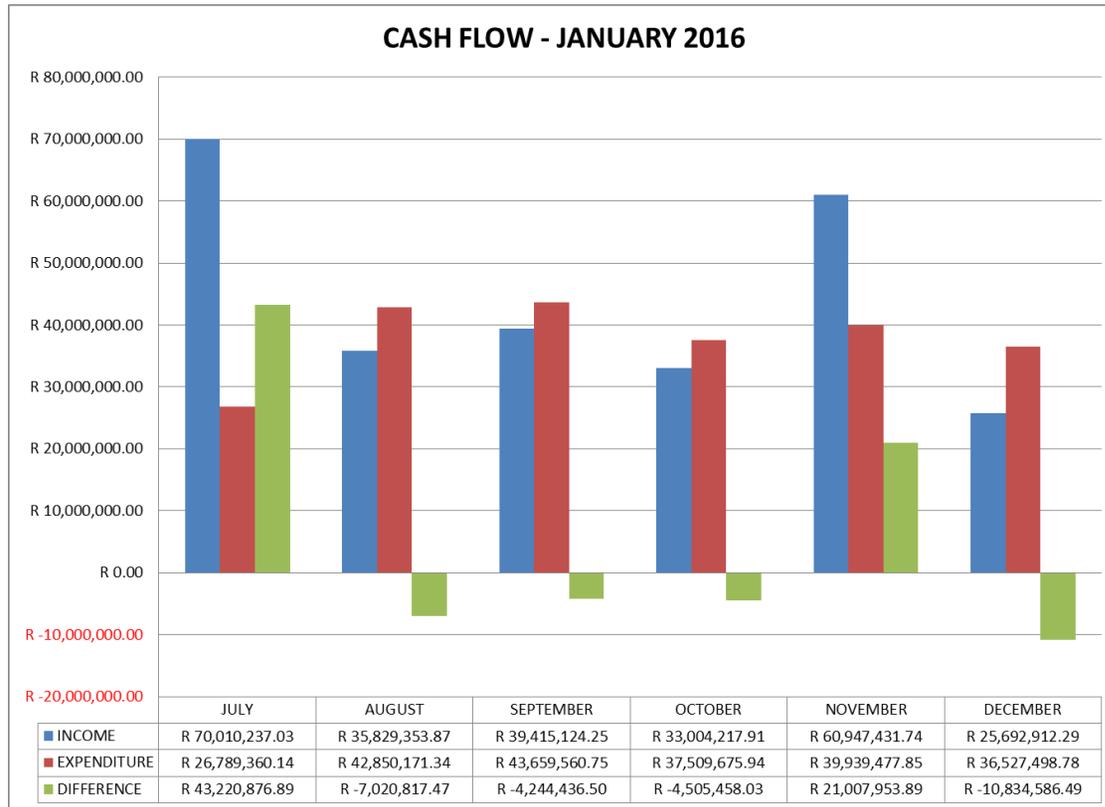
### **Vulnerable cash position**

The municipality may not in terms of section 45 of the MFMA close the financial year with any short term borrowing or overdraft. It must further ensure that there must be sufficient cash and investments to fulfill our legal obligations to provide not only to be able to meet the monthly payments as and when they fall due but for the cash-backing of reserves and other working capital requirements. It is generally accepted that the municipality must have sufficient cash coverage of three months of average operational expenditure.

Of the reasons noted by National Treasury why municipalities' cash coverage is:

- A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs on the affordability of household budgets;
- The need to pay suppliers, especially contractors responsible for capital projects;
- The need to finance the cash-flow difference between paying for the increased cost of bulk electricity and the collection of revenues from customers;
- Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue.
- A rate-payers/consumers boycott.

<b>CASH FLOWS</b>			
	<b>INCOME</b>	<b>EXPENDITURE</b>	<b>DIFFERENCE</b>
<b>JULY</b>	<b>R 70,010,237.03</b>	<b>R 26,789,360.14</b>	<b>R 43,220,876.89</b>
<b>AUGUST</b>	<b>R 35,829,353.87</b>	<b>R 42,850,171.34</b>	<b>(R 7,020,817.47)</b>
<b>SEPTEMBER</b>	<b>R 39,415,124.25</b>	<b>R 43,659,560.75</b>	<b>(R 4,244,436.50)</b>
<b>OCTOBER</b>	<b>R 33,004,217.91</b>	<b>R 37,509,675.94</b>	<b>(R 4,505,458.03)</b>
<b>NOVEMBER</b>	<b>R 60,947,431.74</b>	<b>R 39,939,477.85</b>	<b>R21,007,953.89</b>
<b>DECEMBER</b>	<b>R 25,692,912.29</b>	<b>R 36,527,498.78</b>	<b>(R10,834,586.49)</b>
	<b>R264,899,277.09</b>	<b>R227,275,744.80</b>	<b>R37,623,532.29</b>



### **Risks posed by the current state of finances**

The municipality must ensure that it does not fall into the risks associated with financial stress which are:

#### Service delivery risks

- Staff do not get paid – and so refuse to work
- Bulk services do not get paid for – so services could be cut
- Contractors and suppliers do not get paid
- Repairs and maintenance is invariably among the first expenditures cut placing service delivery at risk, as well as future revenue

### **Fiscal risks**

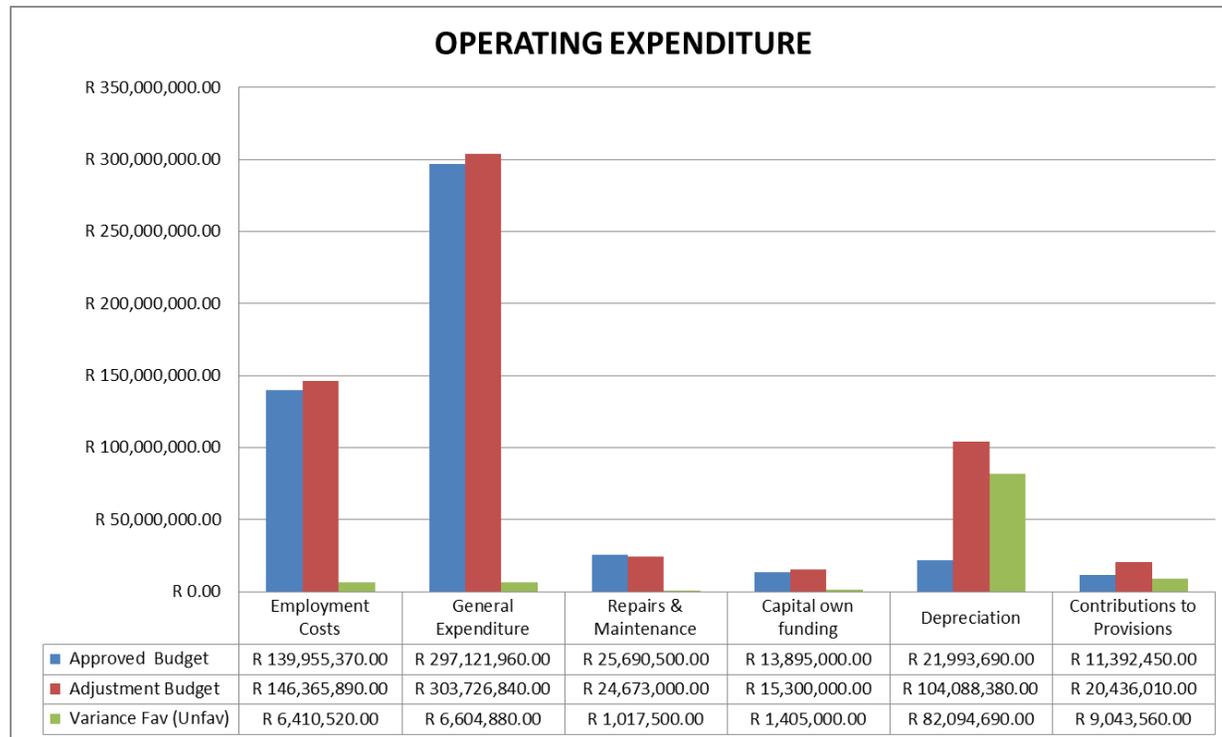
- Poor financial management processes and systems exposes the municipality to corruption
- The municipalities are failing to properly utilise the resources available to them by failing to collect available revenues
- Poor financial management increases the cost of borrowing

### **Budget Related Resolutions**

The Municipal Finance Management Act (MFMA) No 56 of 2003 requires that the municipality table and adopt the budget and budget resolutions. The format of the budget and supporting documentation is prescribed by the Municipal Budget and Reporting Regulations.

### **Summary Statement of Financial Performance**

Description	Approved Budget	Adjustment Budget	Variance Fav (Unfav)
Total Revenue	<b>R511,778,830.00</b>	<b>R490,065,730.00</b>	( R21,713,100.00)
Total Operating Expenditure	<b>R510,048,970.00</b>	<b>R614,590,120.00</b>	<b>( R104,541,150.00)</b>
Employment Costs	R139,955,370.00	R146,365,890.00	R6,410,520.00
General Expenditure	R297,121,960.00	R303,726,840.00	R6,604,880.00
Repairs & Maintenance	R25,690,500.00	R24,673,000.00	R1,017,500.00
Capital own funding	R13,895,000.00	R15,300,000.00	R1,405,000.00
Depreciation	R21,993,690.00	R104,088,380.00	R82,094,690.00
Contributions to Provisions	R11,392,450.00	R20,436,010.00	R9,043,560.00
<b>(SURPLUS)/DEFICIT</b>	<b>(R1,729,860.00)</b>	<b>R124,524,390.00</b>	<b>R126,254,250.00</b>



The operating expenditure variances against budget are:

- Employee costs – the over expenditure on the salary budget is due to the implementation of TASK and an amount of R498, 800 is required for this cost. When the 2015/2016 budget was adopted the Salary and Wage Collective Agreement had not been finalized for 2015/2016 and this resulted in a shortfall in the budgets of departmental Basic Salaries & housing subsidies. Provision has been made to increase the overtime votes by an additional R7,1 million due to overtime worked and the new salary rate due to TASK scales which are higher. There have been severe water problems damages which have increased the call outs for essential service departments. Vacancies in the Technical departments also add to the impact on high overtime and consideration will be given to filling crucial. The Payday system has also added additional modules to the system which once training has been completed by the IT Section will ensure that all overtime can be captured daily on the Employee Self Service Module and be authorised daily by the Supervisor, Manager and Director of the department and the other module is the Time and Attendance module which interfaces with the Employee Self Service Module and gives Directors and Managers daily controls over staff attendance.
- Repairs and Maintenance – the budget has been reduced by R1 million. During the second half of the year the Repair & Maintenance votes will also not be blocked to allow repairs and maintenance to be carried out without any delays. An additional amount of R 826,000 to general infrastructure for water.
- General expenses – the budget for General expenses has been increased by R 6,6 million. An additional amount of R2,2 million has been included for Poverty Alleviation. Votes under General expenses will be blocked and all requests will have to be submitted for approval to the CFO.
- Capital from own funding – the budget has been increased by R 1,4 million, the increase is due to the new transformer that had to be purchased for Emondlo, however spending on nice to have items has been reduced due to income not being realised.
- Depreciation – the budgeted amount of R 21,9 million has been increased to R 104 million.
- Contribution to provisions – the budget has been increased by R 9 million mainly due to the increase in the debtors, the landfill site provision and retirement benefits.
- The contributions to provision and depreciation which are non-cash items are resulting in the 2015/2016 adjustment budget showing a deficit of R 124,5 million.

### **CHALLENGES FOR THE 2ND HALF OF 2015/2016**

The major challenge the municipality faces going forward is that if the drought continues all expenditure will be blocked as the municipality will receive no revenue from water or sanitation charges. Further challenges include the cost containment measures that National Treasury have advised municipalities to implement to provide reasonable assurance that all expenditure in all sections are necessary, appropriate, paid promptly and adequately recorded. Given the

economic challenges facing the community where resources are scarce it is imperative that funds are utilised effectively and economically.

To ensure compliance the following measures must be implemented as National Treasury have notified the Auditor-General who will be monitoring whether these changes have been implemented when the audit is conducted:

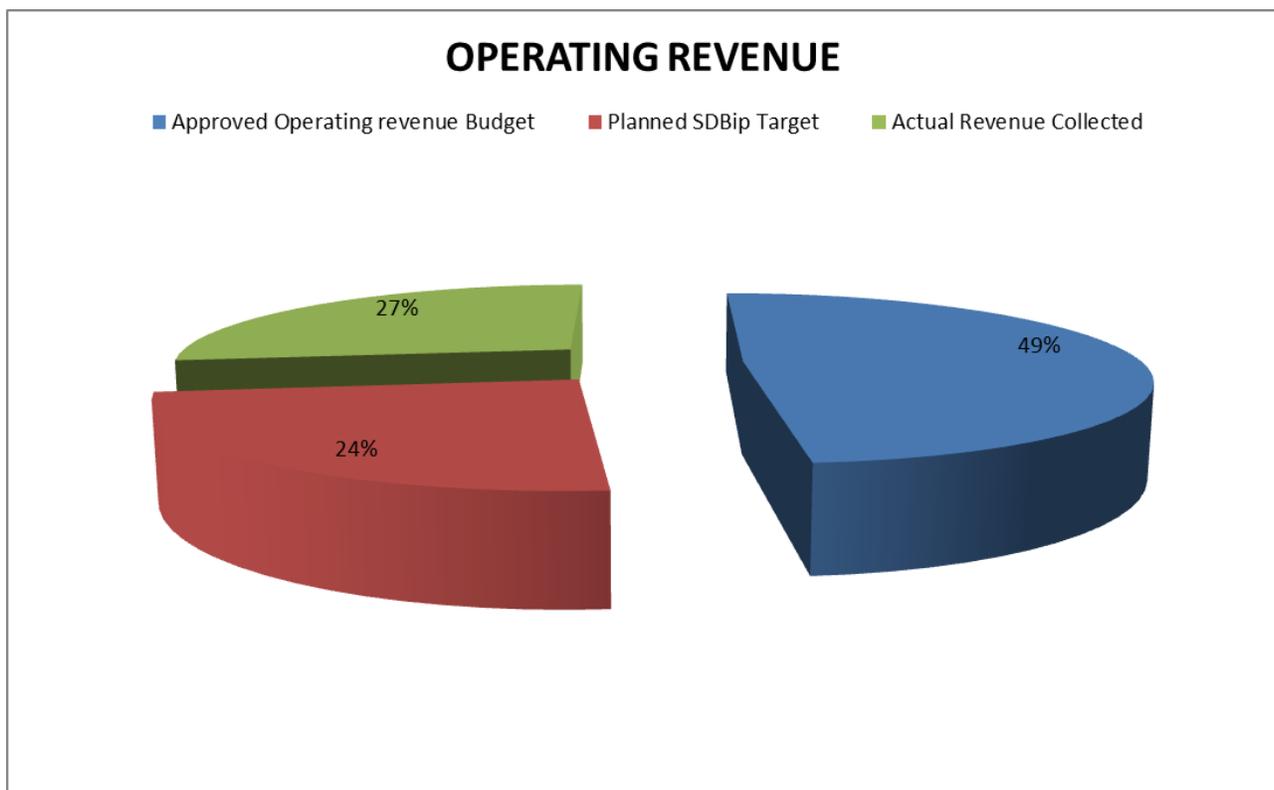
- Engagement of consultants – ensure a gap analysis has been confirmed that the relevant section does not have the requisite skills or resources in its full time employ to perform the assignment in question. The appointment of consultants may only be approved by the Accounting Officer and consultants may only be remunerated in terms of the guidelines issued by SAICA.
- Hotel accommodation may not exceed R 1,300 per night per person including dinner, breakfast and parking. Three quotations to be obtained for all accommodation. Overnight accommodation must be limited to instances where the distance by road exceeds 500 kilometers to and from the destination.
- Trips by vehicles must be optimised to reduce costs. Travel must be limited to meetings or events that are considered absolutely critical and the number of employees attending such meetings or events must be limited to those employees that are directly involved in the matter or event.
- Claims for meals must be prohibited if the hotel rate already includes dinner and/or breakfast or if the conference fee includes lunch and/or dinner.
- Supplier and early settlement discounts must be negotiated to secure lower prices.
- Savings on the amount of paper used must be considered by printing documents ‘back to back’ and using colour printing prudently. The use of electronic mail must be encouraged.
- All newspapers and other publications for employees should be discontinued.
- Staff should be encouraged / educated on the prudent use of water and electricity usage in buildings to lower utility costs.
- Stricter control of allowances to employees making private calls.
- Telephone and/or video conferencing facilities must be used, where possible, to avoid unnecessary travel and subsistence costs.
- Advertising for vacancies should be placed through bulk advertisements.
- Every effort must be made to recover debts from debtors before giving any consideration to writing off debts.

- Meetings and planning sessions must as far as practically possible be held in-house. Meetings attended by Councillors/employees may not incur catering expenses for internal meetings. Catering should be limited to functions where external government departments are attending and limited to light snacks.
- Purchasing of new furniture and equipment and office refurbishments should only be undertaken where absolutely necessary.

Revenue generated from property rates and service charges forms a significant percentage of the revenue source of the municipality.

The approved operating revenue budget amounts to R 511,7 million. For the period under review the planned SDBIP target is R 256,1 million and the actual revenue collected to date is R 286,6 million. When comparing the planned against the actual revenue there is a 6% over performance shown. This is mainly due to the 1<sup>st</sup> and 2<sup>nd</sup> tranche of Equitable Share having been received. The estimation of the expected revenue will be addressed in the Adjustment Budget.

This is shown in the following graph:



### **Reasons for major variances between planned and actual revenue collected:**

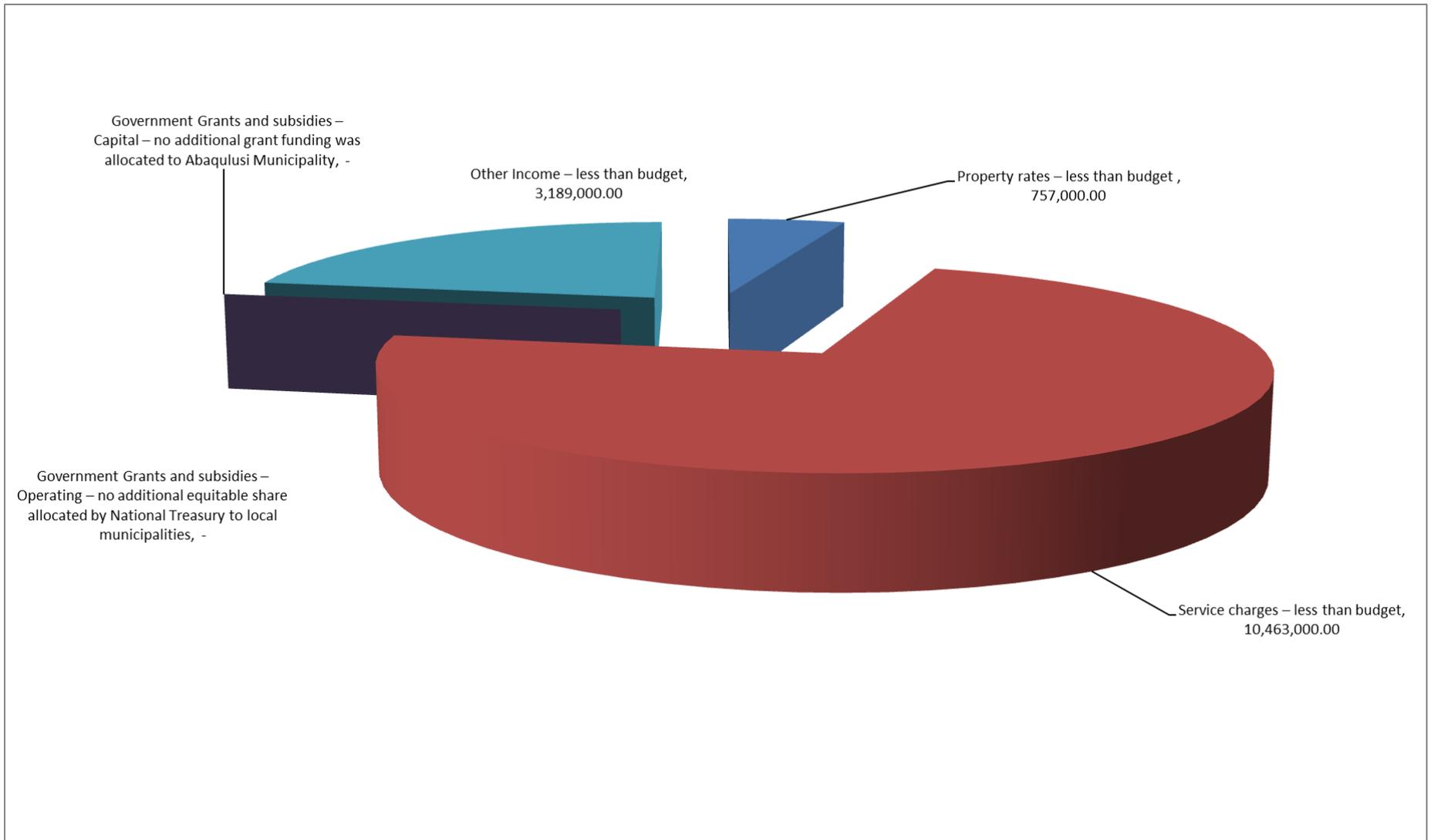
- revenue from electricity sales is 5% below the planned projection
- revenue from water sales is 20% below the planned projection
- revenue from sanitation sales is 3% below the planned projection
- revenue from refuse sales is 5% below the planned projection
- the collection of fines is 73% behind the planned projection. The collection of fines needs to be accelerated to reach the budgeted target
- revenue from other sources needs to be investigated and projections corrected during the Adjustment Budget
- revenue from service charges income has been affected as the municipality has now to give more free services as many more consumers have become Indigent over the past six months.
- revenue for training received from SITA has not been received
- revenue from investments is half the budgeted amount due to investments that were withdrawn during the last financial year
- revenue from Development Planning for building plan fees is less than the budgeted amount.
- Revenue from Community Services department no income has been received for the Caravan Park, swimming pool or dam entrances and less income than was budgeted for has been received for the hiring of the halls, library fines, lost book charges, membership fees and Photostat copies.
- It must also be noted that the half year income reflects the second tranche of the equitable share which must be carried over into next quarter. This inflates the six month Income figure as shown above.

The municipality is still expected to deliver services in an area which is growing with fewer funds to do so.

The major operating revenue variances against budget to date are:

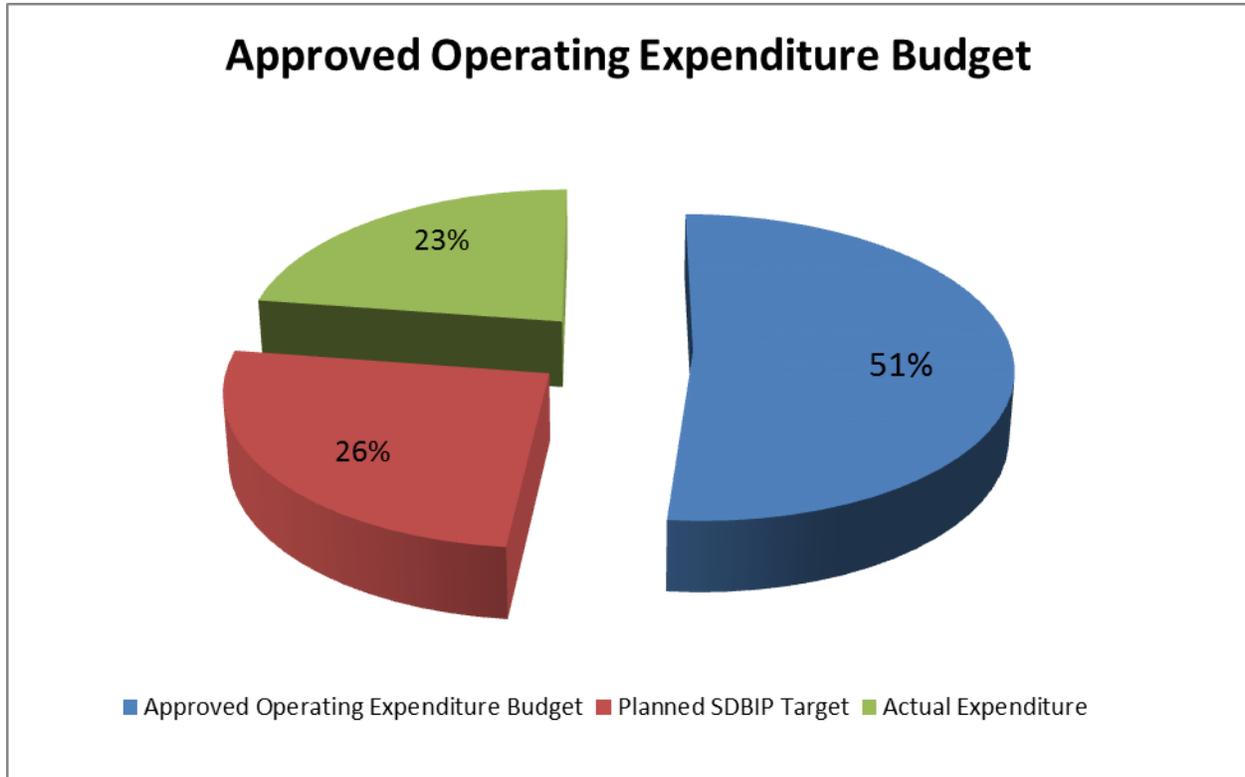
- Property rates – R 757,000 less than budget
- Service charges – R 10,463,000 less than budget
- Government Grants and subsidies – Operating – no additional equitable share allocated by National Treasury to local municipalities
- Government Grants and subsidies – Capital – no additional grant funding was allocated to Abaqulusi Municipality
- Other Income – R 3,189,000 less than budget

The Directors and Managers are playing their oversight on their budgets and monitoring their spending as advised monthly by the Finance Department, the main concern is the lack of income and this is going to result in Finance again having to block non-essential votes to try and limit spending. This will hamper service delivery in the second half of the year and result in no additional funding being made available.



The approved operating expenditure budget amounts to R 510,1 million. For the period under review the planned SDBIP target is R 255 million and the actual expenditure to date is R 223,9 million. When comparing the planned against the actual expenditure there is a 12% saving.

This is shown in the following graph



#### Reasons for major expenditure variance variances against budget are:

- Employee costs – R 5,3 million more than budget. It must be noted and with great concern that overtime costs are causing a problem in this financial year as in the past with over expenditure for the year to date of R 2,977,476 (two million, nine hundred & seventy seven thousand, four hundred & seventy six rand) and projected for the year to overspend by more than R 5,9 million.
- Repairs and Maintenance – R 5,2 million less than budget.
- Bulk purchases – The ESKOM accounts are in line with the budget.
- General expenses – S &T for the year to date is R 1,990,667 (one million, nine hundred & ninety thousand, six hundred & sixty seven rand) which is R 614,667 more than the budget and R 81,704 more than in the 2014/2015 financial year and projected to overspend by R 1, 2 million for the year. Departments and Council must be conservative in allowing Councillors and staff to attend workshops and meetings.

The approved capital budget amounts to R 67,4 million. For the period under review the planned SDBIP target is R 33,7 million and the actual expenditure to date is R 53,8 million. When comparing the planned against the actual expenditure, an over performance is shown.

It must be noted that both MIG and DoE projects are nearly complete for this financial year. Capital from own funding could not start on time or start at all due to funding constraints that the municipality is currently experiencing. At the beginning of July the municipality had to purchase a new 10 MVA transformer for eMondlo which was not budgeted for and the budget for capital will have to be reprioritized accordingly.

The following graph indicates the spending pattern per month

**Reason for major variance of year-to-date capital expenditure, compared to departmental Service Delivery Budget Implementation Plans (SDBIP) targets for the municipal vote is:**

- Electricity Reticulation – new transformer for eMondlo had to be purchased that was not budgeted for
- Electricity Reticulation – Prepaid meters in Coronation, the tender was advertised but not awarded
- Electricity Reticulation – Apollo Lighting
- Electricity Reticulation – heavy duty equipment for digging trenches only advertised in January 2016
- Water Reservoirs & Reticulation – replacement of water pipes in eMondlo to control leaks started late in December 2015
- Community Services – Fencing of cemeteries, tender advertised in January 2016
- Sewerage Reticulation – the relay of eMondlo sewer network has not yet been started
- Funds were allocated to small capital items funded from the operating budget for furniture but these funds will have to be adjusted and only capital for upgrading of infrastructure will now be available
- Capital program for eMondlo roads and rural roads is ongoing as well as the electrification of Eskom areas, these projects are funded from grants.

Borrowings – own resources need to be accumulated before capital projects are embarked upon. Due to the impact of the growth in external funding on the operating budget the municipality currently enters into finance leases for the acquisition of new vehicles rather than rely on external funding to fund the capital budget.

As at the end of December 2015, R104, 2 million was outstanding for debtors, with R74, 4 million outstanding for longer than 90 days.

The municipality has appointed Bigen Africa to assist with the debtor's book. The municipality needs to consider appointing staff/outsource for the continuous audit and social assessments of households to identify households that apply for indigent status.

The fact that the municipality is experiencing on-going cash flow challenges is highlighted and needs to be taken into account when approval is considered for specific initiatives. Departments continue to bypass the CFO for financial input for certain projects and this is impacting on the reprioritizing of funds during the Adjustment Budget due to the shortfall.

### **Other Financial Issues**

This executive report continues to highlight the performance achievement of the Finance Department during the first half of the financial year, taking into account:

- i. One targets set in the service delivery and business delivery

The main strategic goals during the 2015/2016 as set out in the business plan and reported in the performance report were for the following:

- The optimization of revenue collection by using incentives to encourage payments, increasing the number of payment methods, increasing the billing coverage and vigorously implementing the credit control policy and bylaws through effective implementation of the existing legal processes.
- Increasing the number of paying consumers by improving better communication and better relationships with consumers.
- Reduction of costs through reduction in physical and bulk losses.
- Improve service delivery to community through best practices.
- Reduction and/or control of expenditures mainly through the control of overhead costs by utilizing effective systems (blocking votes on the financial system)
- Alignment of structure with organizational strategy.
- Counteract wasteful water and electricity practices through education and awareness campaigns.
- Raising the level of awareness of consumers about hygiene and environmental health in compliance with regulatory requirements.

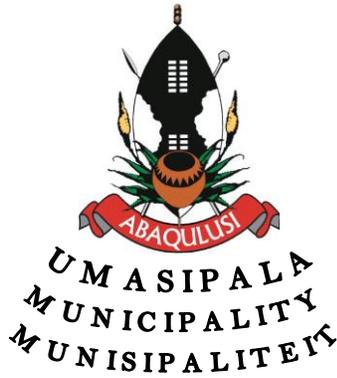
- Continual development of the required strategic skills from managerial levels to lower levels.
- Identify and manage operational and financial risks within the existing regulatory framework/environment.
- Manage and maintain an effective and efficient network system within the total AbaQulusi area.

Our Ref.: 9/1/17

Your Ref.

Enquiries: H A Mahomed

Dept.: Finance



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## QUALITY CERTIFICATE

I, **A B Mnikathi**, Acting Municipal Manager of **ABAQULUSI MUNICIPALITY**, hereby certify that: (mark as appropriate)

- The monthly budget statement
- Quarterly report on the implementation of the budget and financial state of affairs to the municipality
- Adjustment budget

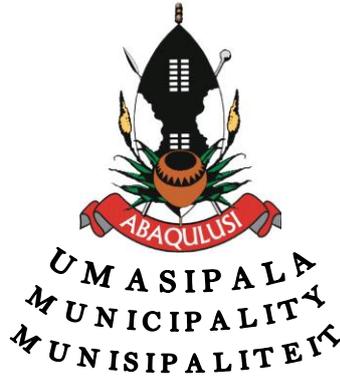
The Adjustment Budget 2015/2016 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

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**A B MNIKATHI**  
**ACTING MUNICIPAL MANAGER**  
**ABAQULUSI MUNICIPALITY**  
**KZN263**

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**DATE**



## CONFIRMATION CERTIFICATE

I, \_\_\_\_\_, the Chief Financial Officer of (**ABAQULUSI MUNICIPALITY**.) have checked the Report and done the Review Session with my Department. The POE's are categorised according to the index. *(Marked as appropriate)*

The December Monthly Report

Quarterly Report on the implementation of the  
Financial State of affairs to the Municipality

Adjustment Budget

Medium Term Report

I hereby confirm that the above is a true reflection of the Finance Section and in full compliance with Schedule 2 of the Municipal Systems Act.

\_\_\_\_\_  
**H A MAHOMED**  
**CHIEF FINANCIAL OFFICER**  
**ABAQULUSI MUNICIPALITY**  
**KZN263**

\_\_\_\_\_  
**DATE**