



FINANCIAL SERVICES

INTEROFFICE MEMORANDUM FINANCIAL SECTION

ENQUIRIES : **CHIEF FINANCIAL OFFICER**
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DATE : **25 JANUARY 2013**

TO : **FINANCE PORTFOLIO / EXCO**

SUBJECT : **SECTION 72 MFMA FINANCIAL AND PERFORMANCE
REPORT FOR THE MID-YEAR PERIOD ENDING 31
DECEMBER 2012**

1. PURPOSE

The purpose of this report is to comply with Section 72 of the MFMA which is part of the regular financial reporting obligations of the Municipal Manager, as Accounting Officer to inform the Mayor and Council on the latest state of the Municipality's budget each month and each half-year.

2. DELIBERATION/BACKGROUND

Strategic Objective: "To ensure good governance, financial viability and optimal institutional transformation with capacity to execute its mandate."

Section 72 - Mid-year budget and performance assessment

(1) The accounting officer of a municipality must by 25 January of each year-

(a) assess the performance of the municipality during the first half of the financial year, taking into account-

(i) the monthly statements referred to in section 71 for the first half of the financial year;

- (ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
 - (iii) the past year's annual report, and progress on resolving problems identified in the annual report; and
 - (iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and
- (b) submit a report on such assessment to-
- (i) the mayor of the municipality;
 - (ii) the National treasury; and
 - (iii) the relevant provincial treasury.
- (2) The statement referred to in section 71(1) for the sixth month of a financial year may be incorporated into the report referred to in subsection (1) (b) of this section.
- (3) The accounting officer must, as part of the review-
- (a) make recommendations as to whether an adjustment budget is necessary; and
 - (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Section 46(1) of the Municipal Systems Act, act 32 of 2000 states:

"A municipality must prepare for each financial year a performance report reflecting:

- (a) *The performance of the municipality and of each external service provider during that financial year;*
- (b) *A comparison of the performances referred to in paragraph (a) with targets set for and performances in the previous financial year; and*
- (c) *Measures taken to improve performance"*

Section 46(2) states:

"An annual performance report must form part of the municipality's annual report in terms of Chapter 12 of the Municipal Finance Management Act."

Section 45 states:

"The results of performance measurements in terms of section 41(1) (c) must be audited-

- a) *As part of the municipality's internal auditing processes;*

b) *Annually by the Auditor-General*

Section 41(1) (c) states:

“A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed-

c) *With regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)-*

- i. *Monitor performance; and*
- ii. *Measure and review performance at least once per year”*

For the reporting period ending 31 December 2012, the reporting limit expires on **25 January 2013**.

Overview of Current Financial Position

Summary Statement of Financial Performance

Description	Dec YTD Budget R'000	Dec YTD Actual R'000	Variance Fav (Unfav) R'000
Total Revenue by Source	-183,353	-175,244	-8,109
Total Operating Expenditure	183,323	165,127	18,196
(SURPLUS)/DEFICIT	-0,030	-10,117	-10,087

The state of the economy is still having an impact on the revenue of the municipality and this has resulted in the Operating Revenue of the municipality not being realised.

In particular the 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.

Due to the high electricity losses due to illegal connections the sales are down by approximately R8 million.

Block tariffs were implemented for prepaid electricity for the first time this year.

The indigent list of the municipality continues to grow and this is having a huge impact on the income as more and more free services are being given due to people being unemployed.

In the Department of Public Safety the income for Traffic fines is less than the budgeted amount due to the Robot camera only being installed during the 2nd quarter of the year and to date no income has been received.

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 919,000 more than budget
- Service charges – R 6,174,000 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 15,097,000 less than budget – other income represents non-cash items, i.e. depreciation and provisions of which a credit was budgeted for as per National Treasury guidelines. A journal in the current year has not been processed so as to eliminate the variance.

The Directors and Managers are playing their oversight on their budgets and monitoring their spending despite being 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 operating expenditure variance variances against budget are:

- Employee costs – R 5,764,000 less than budget. This is mainly due to Councillors having not yet received their annual increase as well as the Section 57 employees salary costs which are being paid under contract payments. It must further 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 2,480,503 (close to 2,5 million rand) and projected for the year to overspend by R 4,9 million.
- Repairs and Maintenance – R 3,4 million less than budget.
- Bulk purchases – The ESKOM accounts are extremely high and the shortfalls from the previous financial years are being felt by the municipality and this is also resulting in a shortfall of R 3 million anticipated for the year.
- General expenses – S &T for the year to date is R 523,814.04 and projected to have a saving of R 400,00 for the year as most conferences for the various sections have taken place. Departments must however be conservative in allowing staff to attend workshops and meetings.

Summary statement of Capital Expenditure

Description	Dec YTD Budget R'000	Dec YTD Actual R'000	Variance Fav (Unfav) R'000
Total Capital Expenditure	19,532	8,779	10,753
Total Capital Financing	19,532	41,850	22,318
Total Spent/(Unspent)	0	(33,071)	33,071

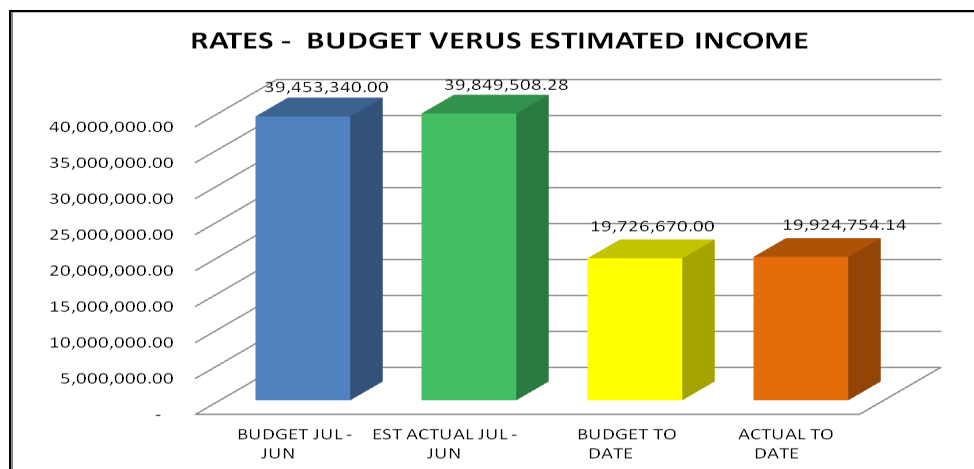
The major variance of year-to-date capital expenditure, compared to departmental Service Delivery Budget Implementation Plans (SDBIP) targets for the municipal vote is:

- Electricity Reticulation
- Roads, Pavements, Bridges & Stormwater
- Water Reservoirs & Reticulation

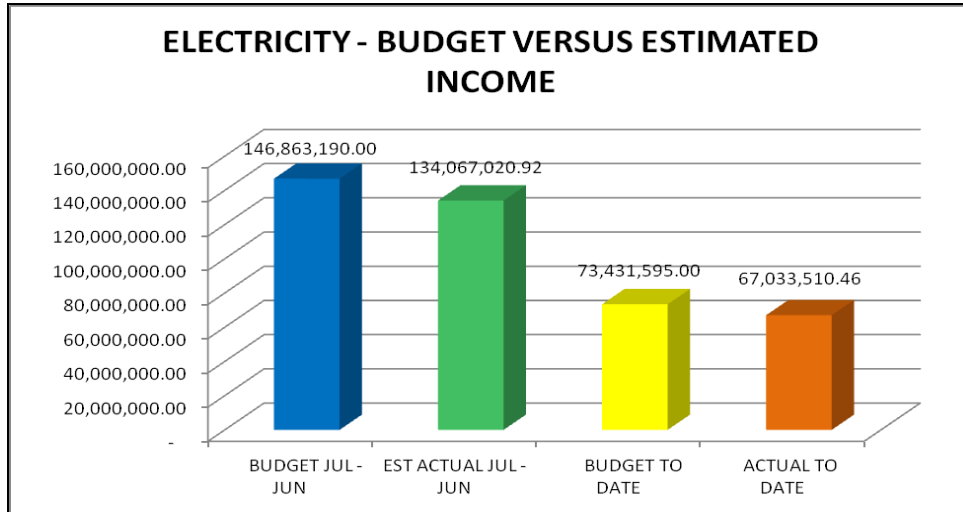
In this financial year funds were allocated to small capital items funded from the operating budget but these funds will have to be adjusted and only capital for upgrading of infrastructure will now be available.

The capital program for eMondlo roads and rural roads is ongoing as well as the electrification of Eskom areas.

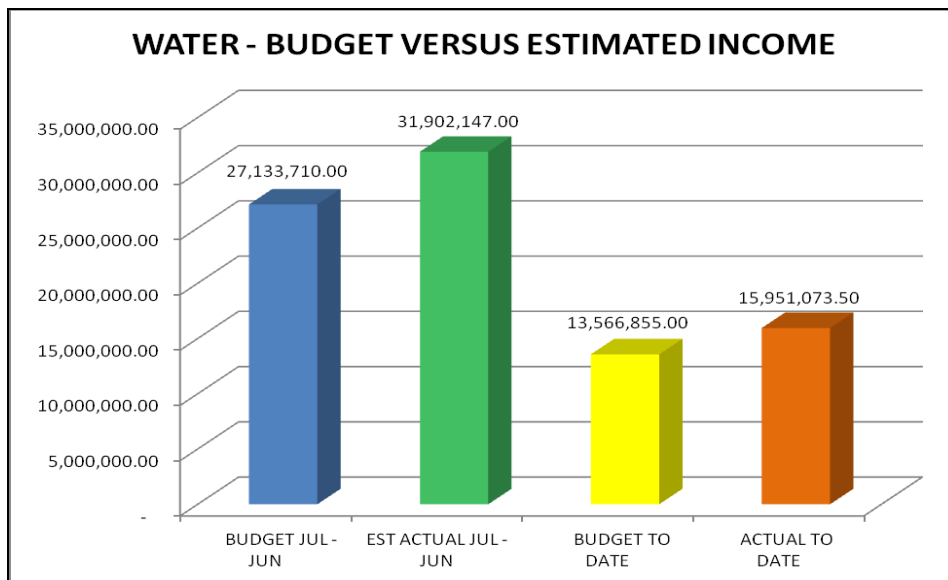
OPERATING REVENUES		
RATES	R	%
	Budgeted Annual Revenue	39,453,340.00
Revenue Collected at December 2012	19,924,754.00	50,5
Forecast Collectable to 30 June 2013	39,849,508.00	101
Forecast (Surplus)/Deficit	(396,168.00)	1



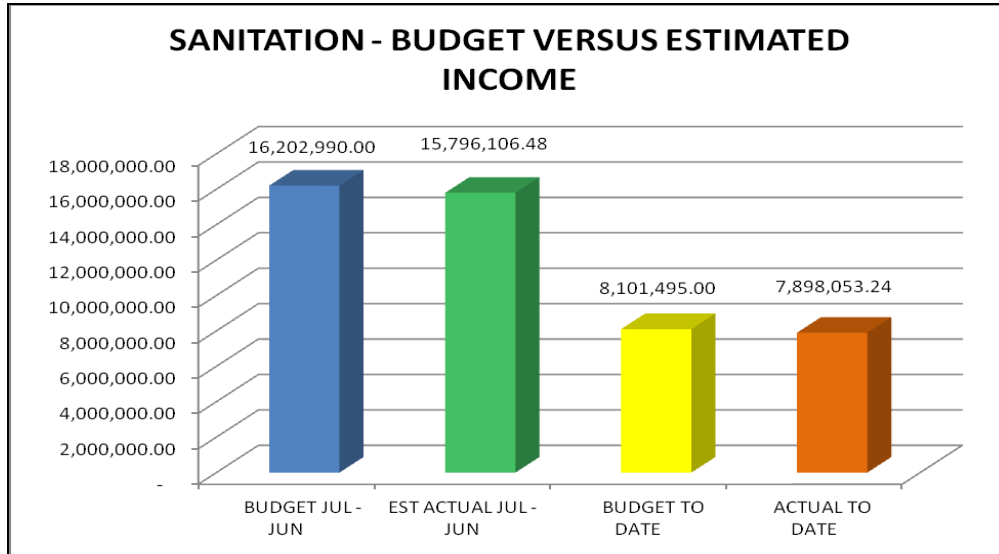
ELECTRICITY		
	R	%
Budgeted Annual Revenue	146,963,190.00	100
Revenue Collected at December 2012	67,033,510.46	44,6
Forecast Collectable to 30 June 2013	130,566,994.14	88,8
Forecast (Surplus)/Deficit	16,396,195.86	11,2



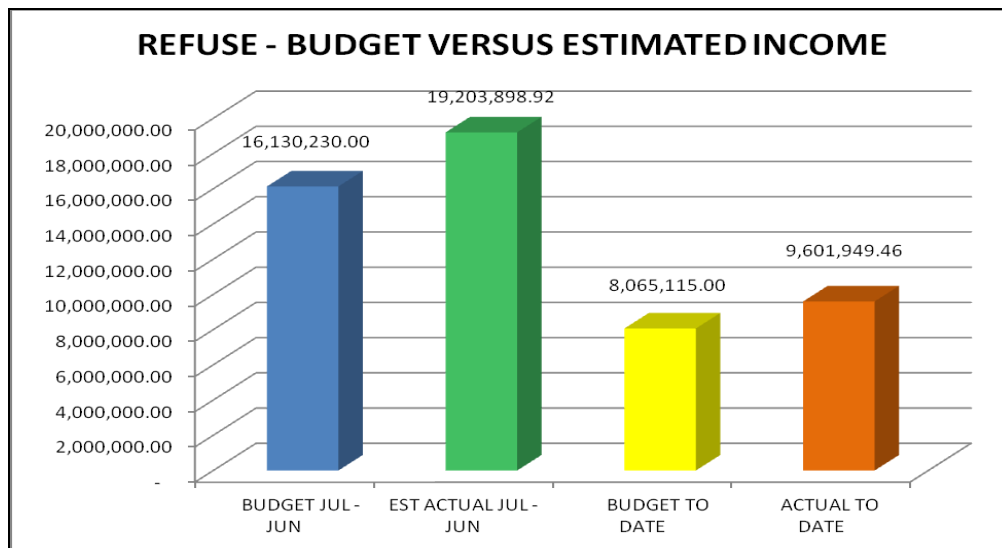
WATER		
	R	%
Budgeted Annual Revenue	27,133,710.00	100
Revenue Collected at December 2012	15,951,073.50	58,8
Forecast Collectable to 30 June 2013	31,902,147.00	117,6
Forecast (Surplus)/Deficit	(4,768,437)	17,6



SANITATION		
	R	%
Budgeted Annual Revenue	16,202,990.00	100
Revenue Collected at December 2012	7,898,053.24	48,7
Forecast Collectable to 30 June 2013	15,796,106.48	97,5
Forecast (Surplus)/Deficit	406,883.52	2,5



REFUSE		
	R	%
Budgeted Annual Revenue	16,130,230.00	100
Revenue Collected at December 2012	9,601,949.46	59,5
Forecast Collectable to 30 June 2013	15,703,898.92	97,4
Forecast (Surplus)/Deficit	426,331.08	2,6



OTHER OPERATING INCOME			
	Budget	YTD Actual	%
Council & Executive - Council	6,159,000.00	5,360,754.39	87
Vehicle Registration	1,976,560.00	922,019.07	46,6
Tourism	100,000.00	0.00	
Corporate Administration	89,570.00	57,302.48	64
Human Resources	160,000.00	252,383.91	157,7
Other Finance	40,814,730.00	1,747,970.77	4,3
Community Development	231,670.00	128,356.12	55,4
Museum	134,000.00	134,000.00	100
Public Safety	5,503,270.00	2,565,075.00	46,6
Development Planning	298,558.00	77,097.68	25,8
Roads & Stormwater	29,370.00	111,667.08	380,2
Cemetery	219,260.00	98,235.33	44,8
Library	1,489,180.00	1,361,376.11	91,4
Equitable Share	66,577,000.00	42,513,000.00	63,8
Parks Admin	22,390.00	19,571.52	87,4

OPERATING EXPENDITURE					
	Annual Budget	YTD Budget	YTD Actual	Forecast Outturn	Forecast Variance
Salaries & Allowances	122,071,150	61,035,575	55,217,864.93	107,718,962	14,352,188
General Expenses	195,633,380	97,816,690	90,680,103	193,690,433	1,942,947
Repairs & Maintenance	19,143,500	9,571,750	6,157,080	18,235,427	908,073
Capital ex Income	3,760,000	1,880,000	105,845	211,691	3,548,309
Depreciation	18,226,350	9,113,175	9,113,175	18,226,350	-
Contributions	7,812,000	3,906,000	3,853,000	7,706,000	106,000
Total	366,646,380	183,323,190	165,127,068	344,387,227	22,259,153
CAPITAL BUDGET FROM EXTERNAL FUNDING					
	Annual Budget	YTD Budget	YTD Actual	Forecast Outturn	Forecast Variance
<u>MIG Funding</u>	26,444,000.00	13,222,000.00	7,731,427.68	15,462,855.36	10,981,144.64
Vryheid Ext Bulk Outfall Sewer	1,146,241.50	573,120.75	354,399.78	708,799.56	437,441.94
eMondlo Roads & Storm water	4,260,926.71	2,130,463.36	2,473,649.09	4,947,298.18	-686,371.47
6B Bus Route Bhekuzulu	10,874,831.79	5,437,415.90	1,790,996.03	3,581,992.06	7,292,839.73
Rural Roads	10,162,000.00	5,081,000.00	3,112,382.78	6,224,765.56	3,937,234.44
<u>Department of Energy</u>	8,000,000.00	4,000,000.00	941,362.93	1,882,725.86	6,117,274.14
Electrification	8,000,000.00	4,000,000.00	941,362.93	1,882,725.86	6,117,274.14
<u>Department of Cooperative Governance & Traditional Affairs</u>					
Thusong Centre	500,000.00	250,000.00	41,447.37	82,894.74	417,105.26

Spending on the Capital Budget will increase in the 2nd half of the year as tenders have been advertised for roads as well as the electrification.

The fact that the municipality is experiencing ongoing 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 reprioritising 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. The targets set in the service delivery and business delivery

The main strategic goals during the 2012/2013 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 organisational 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.

Indigent Statistics

- a) Number of indigents – 5 703 average per month
- b) Free Electricity – 50kwh per month
- c) Cost per annum – R 2,606,098
- d) Free Water – 2 233 receiving 6 kl per month
- e) Cost per annum – R 777,299 including Basic Charge
- f) Free Refuse – 2 831 consumers, value of R 1,162,920 per annum
- g) Free Sanitation – 2 561 consumers, value R 1,519,304 per annum
- h) Free Rates – 1 395 consumers with house values less than R80,000
- i) R 1,101,329 per annum

Financial Statements – 2011/2012

The financial statements were completed in time

Assets

The asset register was realigned into the new categories as required by GRAP. All backlog and current depreciation has been calculated and raised. The Asset section is currently busy verifying all assets.

Investments

Council has an investment portfolio of R86 million; the Council's obligations are as follows:

- At least one month's operating expenditure
- Consumer deposits
- Unspent grant

The Council has sufficient resources to cover its monthly expenses at present.

Debtors

The debtor's book commenced at the beginning of July 2012 with R 51,083,619 and is currently showing R 55,922,827 million which is R 4,839,208 more.

The collection of Property Rates is the most problematic area as a lot of properties are occupied by tenants who only pay for services, owners do not stay in Vryheid and there are no telephone contact details for the owners. Owners in the Bhokuzulu and Emondlo area are deceased; the inherent only pays for services, properties cannot be transferred to the inherent heirs. Property Rates accounts do not form part of the cut-off list. Since the appointment of the Accountant in this section measures have been implemented to try and recover debt over 120 days. Letters have been hand delivered and response has been reasonably good. The Municipality may also recover property rates from tenants or

occupiers and agents according to Chapter 9 of the Municipal Systems Act and the Municipality is now going to issue second letters of demand to the tenants/occupiers/agents. This income will greatly assist the municipality in increasing the cash flow which is currently being strained by the non-receipt of operating income.

Water & Electricity losses

WATER LOSSES 2012/2013

TOTAL	Vhd/Bhz/Louws/ Hlob	VHD/BHZ	Hlobane	eMondlo	Louwsburg	Coronation
KILOLITRES PURIFIED	1,850,003	840,000	102,995	620,000	87,111	199,897
KILOLITRES SOLD	1,813,439	1,078,315	43,624	657,068	31,145	3,287
KILOLITRES NOT ACCOUNTED FOR	36,564	-238,315	59,371	-37,068	55,966	196,610
OR %	1.98%	-28.37%	57.64%	-5.98%	64.25%	98.36%

Electricity

For July 2012 to December 2012

	TOTAL	VHD BHEKUZULU	eMONDLO	HLOBANE	CORONATION
Purchased	81,578,410	64,306,958	11,403,129	2,721,078	3,147,245
Sales	59,311,022	52,479,951	5,646,080	975,891	209,100
Losses	22,267,388	11,827,007	5,757,049	1,745,187	2,938,145
	27.30 %	18.39 %	50.49 %	64.14 %	93.36 %

Other

The collection target that was reached in the second quarter was 90.3% which is 1.38% less in comparison with the first quarter and 7% less than the collection rate at the same time last year.

The number of paying consumers increased from 24,622 during the first quarter to 24,609 in the second quarter.

Annual Report

The Annual Report contains the Annual Financial Statements, together with Audit report and the actions which the municipality will take to resolve the matters raised by the Auditor-General.

3. INSTITUTION/S CONSULTED

This report must be communicated to ward committees once it is approved.

4. IMPLICATIONS

- Finances

This report incorporates the financial status for the period ended 31 December 2012.

The implication of approval of this report is compliance to legislative requirements (Section 72 of the MFMA).

- Communication

In compliance to legislative requirements (Section 72 of the MFMA) this document is provided to all stakeholders by placing it on the AbaQulusi Municipality website and to the ward committees.

- Conclusion

This report meets with the requirements of the MFMA, Section 72 by submitting the 'In-Year report' to Council on the implementation of the budget and the financial status of the municipality.

5. RECOMMENDATIONS

5.1 That, in compliance with Section 72 of the MFMA, the financial results regarding the operating and capital budgets for the first half of the 2012/2013 financial year, and supporting documents as required by National Treasury, is submitted to Council; and

5.2 In order to comply, 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; and

5.3 It is recommended that an adjustment budget be prepared to recommend revised projections for revenue and expenditure where necessary

CHIEF FINANCIAL OFFICER

DATE

**COMMENTS MUNICIPAL MANAGER
SUPPORTED/NOT SUPPORTED
APPROVED/NOT APPROVED**

CARETAKER MUNICIPAL MANAGER

DATE

Our Ref.: 9/1/1/7
Your Ref.

Enquiries: TS Mkhwanazi
Dept.: Finance



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QUALITY CERTIFICATE

I, TL Manda, Caretaker 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
- Mid-year budget and performance assessment

For the half year ending December of 2012 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

TL MANDA
CARETAKER MUNICIPAL MANAGER
ABAQULUSI MUNICIPALITY
KZN263

SIGNATURE: _____

DATE: _____