



FINANCIAL SERVICES

INTEROFFICE MEMORANDUM FINANCIAL SECTION

ENQUIRIES : **CHIEF FINANCIAL OFFICER**

REFERENCE : **9/1/1/7**

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DATE : **MONDAY, 03 FEBRUARY 2014**

TO : **COUNCIL**

SUBJECT : **SECTION 72 MFMA FINANCIAL AND PERFORMANCE
REPORT FOR THE MID-YEAR PERIOD ENDING 31
DECEMBER 2013**

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 2013, the reporting limit expires on **25 January 2014**.

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	-185,707	-201,236	15,529
Total Operating Expenditure	195,297	195,825	(528)
(SURPLUS)/DEFICIT	9,590	5,411	-15,001

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 R3,7 million.

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.

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 1,215,000 less than budget
- Service charges – R 1,905,000 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 2,841,000 more than budget –

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 6,665,000 less than budget. This is mainly due to Councillors having not yet received their annual increase and staff vacancies. 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 2,509,979 (two million, five hundred thousand rand) and projected for the year to overspend by more than R5 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 R7 million anticipated for the year.
- General expenses – S &T for the year to date is R1,172,225 (one million, one hundred & seventy two thousand, two hundred & twenty five rand) which is R330,868 more than in the 2012/2013 financial year and projected to overspend by R200,00 for the year. Departments and Council must however be conservative in allowing Councillors and 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	22,093	17,253	4,840
Total Capital Financing	22,093	25,491	3,398
Total Spent/(Unspent)	0	(8,238)	8,238

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

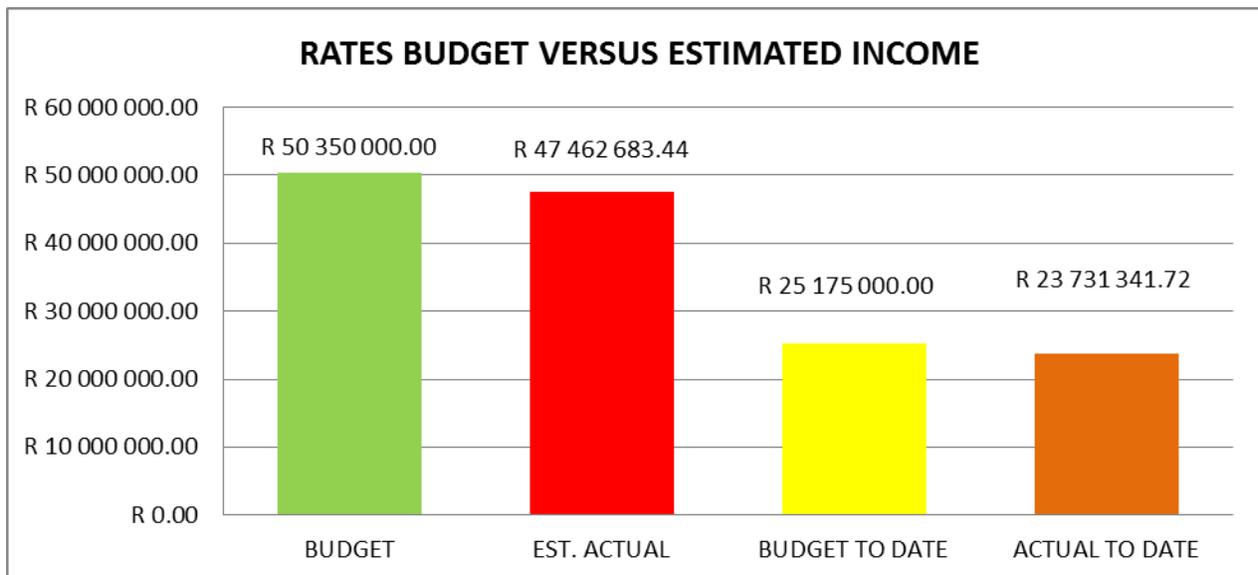
- Electricity Reticulation
- Roads, Pavements, Bridges & Stormwater
- Water Reservoirs & Reticulation

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.

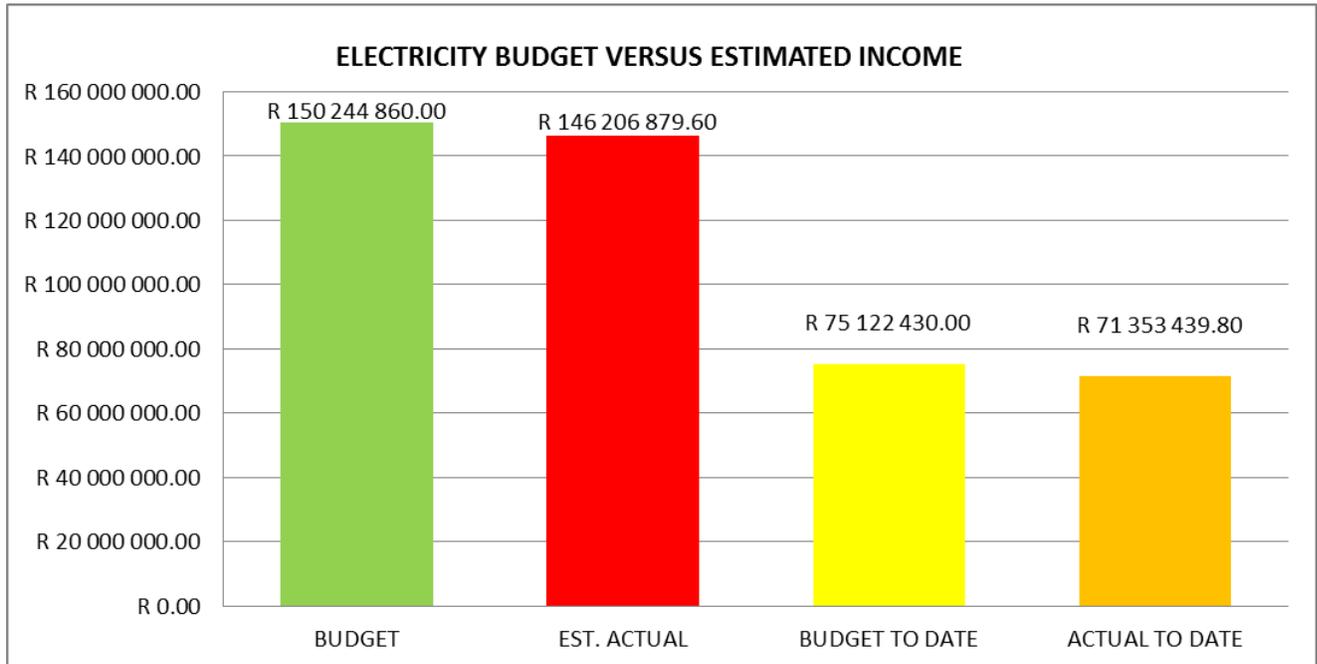
RATES

	R	%
Budgeted Annual Revenue	50,350,000.00	100
Revenue Collected at December 2013	23,731,341.72	47,1
Forecast Collectable to 30 June 2014	47,462,683.44	94,3
Forecast (Surplus)/Deficit	2,887,316.56	5,7



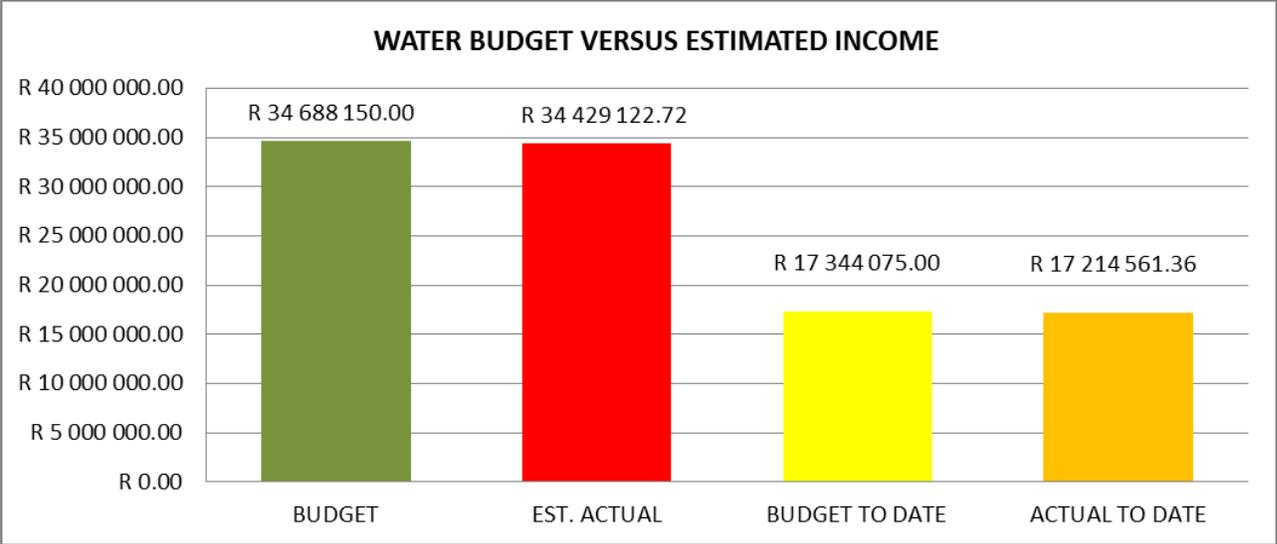
ELECTRICITY

	R	%
Budgeted Annual Revenue	150,244,860.00	100
Revenue Collected at December 2013	71,353,439.80	47,5
Forecast Collectable to 30 June 2014	146,206,879.60	97,3
Forecast (Surplus)/Deficit	4,037.980.40	2,7



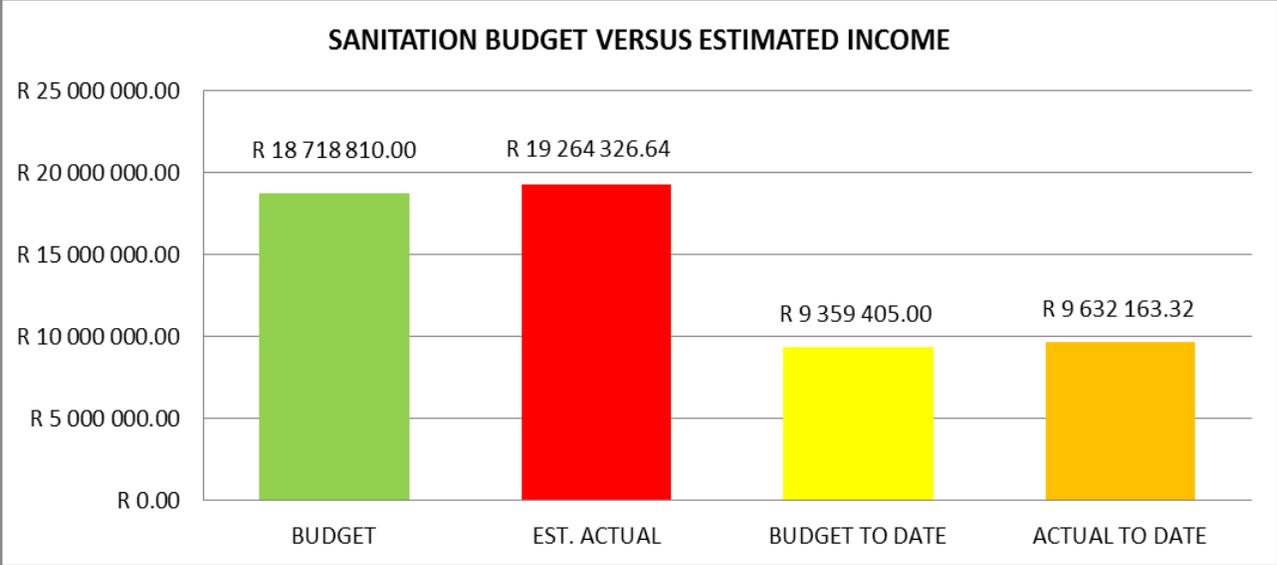
WATER

	R	%
Budgeted Annual Revenue	34,688,150.00	100
Revenue Collected at December 2013	17,214,561.36	49,6
Forecast Collectable to 30 June 2014	34,429,122.72	99,3
Forecast (Surplus)/Deficit	259,027.28	0,7



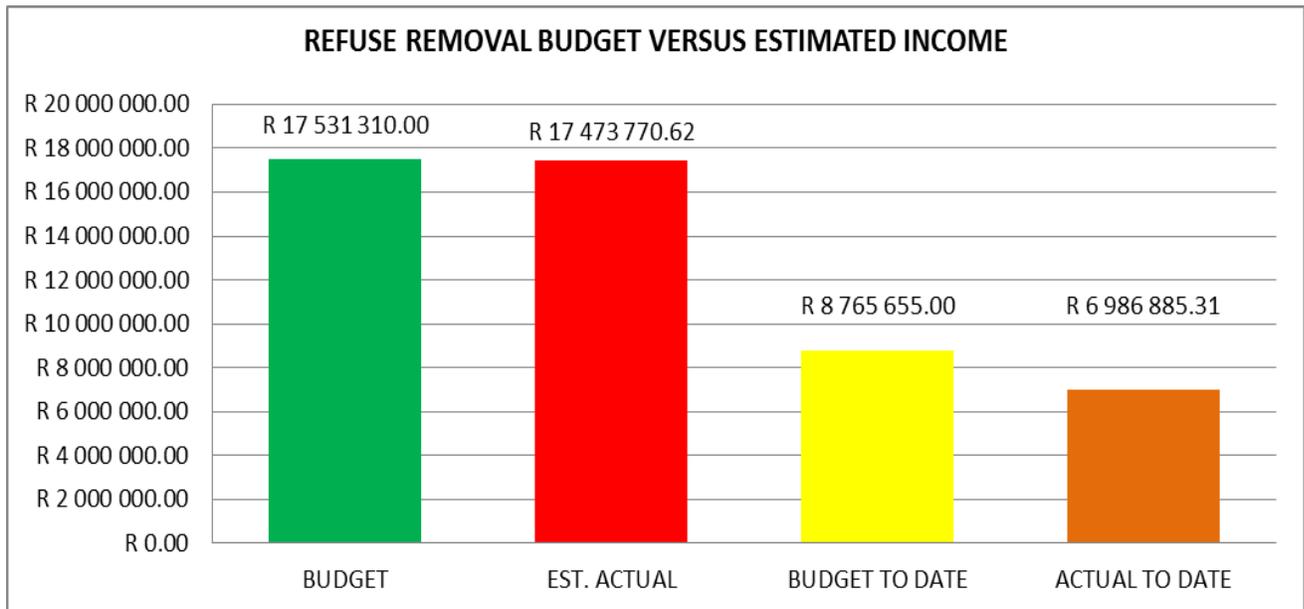
SANITATION

	R	%
Budgeted Annual Revenue	17,718,810.00	100
Revenue Collected at December 2013	9,632,163.32	54,4
Forecast Collectable to 30 June 2014	19,264,326.64	108,7
Forecast (Surplus)/Deficit	(545,516.64)	(8,7)



REFUSE

	R	%
Budgeted Annual Revenue	17,531,310.00	100
Revenue Collected at December 2013	6,986,885.31	39,9
Forecast Collectable to 30 June 2014	17,473,770.62	99,7
Forecast (Surplus)/Deficit	57,539.38	0,3



OTHER OPERATING INCOME			
	Budget	YTD Actual	%
Council & Executive - Council	6,897,000.00	3,500.00	0,1
Vehicle Registration	1,976,560.00	922,019.07	46,6
Tourism	100,000.00	50,000.00	50
Corporate Administration	109,600.00	72,526.22	66,2
Human Resources	620,030.00	81,376.18	13,1
Other Finance	10,551,550.00	4,025,097.72	38,1
Community Development	253,900.00	142,897.21	56,3
Museum	143,000.00	143,000.00	100
Public Safety	4,960,730.00	2,246,228.50	45,3
Development Planning	208,020.00	49,184.26	23,6
Roads & Stormwater	159,640.00	106,550.81	66,7
Cemetery	191,640.00	96,608.97	50,4
Library	2,888,180.00	2,735,556.98	94,7
Equitable Share	69,558,000.00	61,559,000.00	88,5
Community Admin	47,250.00	13,264.42	28,1

OPERATING EXPENDITURE					
	Annual Budget	YTD Budget	YTD Actual	Forecast Outturn	Forecast Variance
Salaries & Allowances	130,523,372	65,261,686	58,763,356	114,921,433	15,601,939
General Expenses	207,879,998	103,939,999	116,592,381	220,563,067	(12,683,069)
Repairs & Maintenance	20,262,580	10,131,290	6,639,708	18,510,874	1,751,706
Capital from own funding	5,204,000	2,602,000	467,804	2,937,702	2,266,298
Depreciation	19,411,060	9,705,530	9,705,530	19,411,060	-
Contributions	7,312,000	3,656,000	3,656,000	7,312,000	-
Total	390,593,010	195,296,505	195,824,779	383,656,136	6,936,874
CAPITAL BUDGET FROM EXTERNAL FUNDING					
	Annual Budget	YTD Budget	YTD Actual	Forecast Outturn	Forecast Variance
<u>MIG Funding</u>	29,982,000.00	14,991,000.00	9,353,996	18,707,992	11,274,008
Vryheid Ext Bulk Outfall Sewer					
eMondlo Roads & Storm water					
6B Bus Route Bhekuzulu					
Rural Roads					
<u>Department of Energy</u>	9,000,000.00	4,500,000.00	7,430,769.59	14,861,539.18	(5,861,539.18)
Electrification	9,000,000.00	4,500,000.00	7,430,769.59	14,861,539.18	(5,861,539.18)

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

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 2013/2014 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 – R2,928,051
- d) Free Water – 2 470 receiving 6 kl per month
- e) Cost per annum – R1,807,131 including Basic Charge
- f) Free Refuse – 4 075 consumers, value of R2,572,179 per annum
- g) Free Sanitation – 3 784 consumers, value R3,451,971 per annum
- h) Free Rates – 1 889 consumers with house values less than R80,000
- i) R1,175,972 per annum

Financial Statements – 2012/2013

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 Register will be uploaded to the Munsoft system during January and will be a live asset register which will be reconciled on a monthly basis.

Investments

Council has an investment portfolio of R74,8 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 2013 with R 60,398,839 and is currently showing R 74,236,423 million which is R 13,837,584 more and compared to last year July 2012 there is an increase of R9,315,220. From December 2012 to December 2013 the debtor's book has increased by R18,313,596.

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 Bhhekuzulu 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 2013/2014							
TOTAL	Vhd/Bhz/Lou ws/Hlob	VHD/BHZ	Hlobane	eMondlo	Louwsburg	Coronation	
KILOLITRES PURIFIED	4,926,757	2,452,300	123,871	1,885,000	120,827	344,759	
KILOLITRES SOLD	1,994,091	1,243,073	87,060	632,141	29,851	1,966	
KILOLITRES NOT ACCOUNTED FOR	2,932,666	1,209,227	36,811	1,252,859	90,976	342,793	
OR %	59.53%	49.31%	29.72%	66.46%	75.29%	99.43%	

ELECTRICITY					
<i>For July 2013 to December 2013</i>					
	TOTAL	VHD BHEKUZULU	eMONDLO	HLOBANE	CORONATION
Purchased	80,543,006	63,320,669	11,324,414	2,659,348	3,238,575
Sales	64,884,994	55,812,508	7,817,049	1,051,109	264,328
Losses	15,658,012	7,508,161	3,507,365	1,608,239	3,034,247
	19.44 %	11.86 %	30.97 %	60.47 %	93.96 %

Other

The collection target that was reached in the second quarter was 88.29% which is 1.67% more in comparison with the first quarter and 2.01% 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 2013.

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 2013/2014 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
-

AUTHOR

DATE

CHIEF FINANCIAL OFFICER

DATE

**SUPPORTED/NOT SUPPORTED
APPROVED/NOT APPROVED**

ACTING MUNICIPAL MANAGER

DATE

**SUPPORTED/NOT SUPPORTED
APPROVED/NOT APPROVED**

ADMINISTRATOR

DATE

Our Ref.: 9/1/17
Your Ref.

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QUALITY CERTIFICATE

I, RS Mokoena, 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
- Mid-year budget and performance assessment

For the half year ending December of 2013 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

RS MOKOENA
ACTING MUNICIPAL MANAGER
ABAQULUSI MUNICIPALITY
KZN263

SIGNATURE: _____

DATE: _____