



# FINANCIAL SERVICES

## INTEROFFICE MEMORANDUM FINANCIAL SECTION

<b>ENQUIRIES</b>	:	<b>CHIEF FINANCIAL OFFICER</b>
<b>REFERENCE</b>	:	<b>9/1/1/7</b>
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<b>DATE</b>	:	<b>WEDNESDAY, 21 JANUARY 2015</b>

**TO** : **COUNCIL**

**SUBJECT** : **SECTION 72 MFMA FINANCIAL AND PERFORMANCE  
REPORT FOR THE MID-YEAR PERIOD ENDING 31  
DECEMBER 2014**

### **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 2014, the reporting limit expires on **25 January 2015**

### **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	-210,580	-218,544	7,964
Total Operating Expenditure	226,688	204,046	22,643
<b>(SURPLUS)/DEFICIT</b>	<b>(16,109)</b>	<b>14,498</b>	<b>-30,607</b>

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 R5 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 as well as drivers/learners licences is less than the budgeted amount.

In the Human Resources department the income for training received from SITA is less than the budgeted amount.

The income from investments is half the budgeted amount due to investments that were withdrawn during the last financial year.

In the Development Planning department the income for building plan fees is less than the budgeted amount.

In the 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 538,000 less than budget
- Service charges – R 7,586,000 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 2,165,000 less 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 991,000 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 2,623,833 (two million, six hundred & twenty three thousand, eight hundred & thirty three rand) and projected for the year to overspend by more than R5,2 million.
- Repairs and Maintenance – R 6,9 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 1,173,562 (one million, one hundred & seventy three thousand, five hundred & sixty two rand) which is R 1,337 more than in the 2013/2014 financial year and projected to overspend by R 384,024 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	28,197	15,047	13,150
Total Capital Financing	28,197	31,692	3,495
Total Spent/(Unspent)	0	16,645	16,645

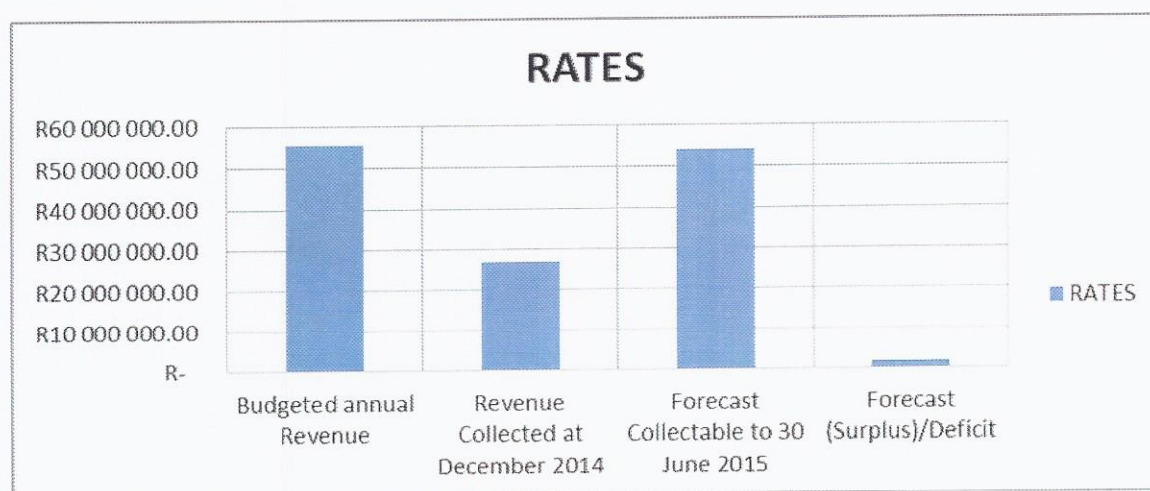
The major variance of year-to-date capital expenditure, compared to departmental Service Delivery Budget Implementation Plans (SDBIP) targets for the municipal vote is:

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

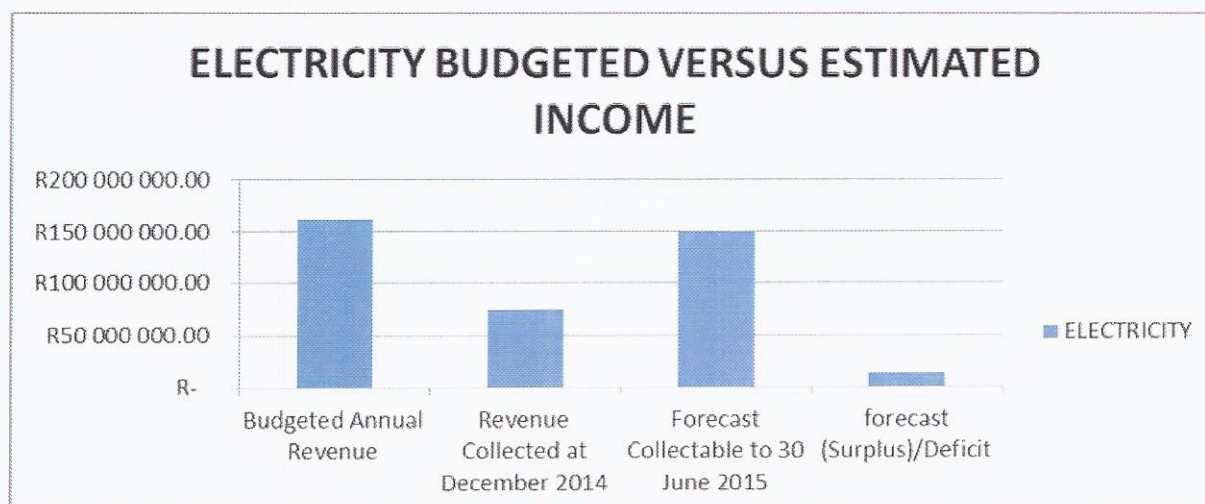
In this financial year funds were allocated to small capital items funded from the operating budget but these funds will have to be adjusted and only capital for upgrading of infrastructure will now be available.

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

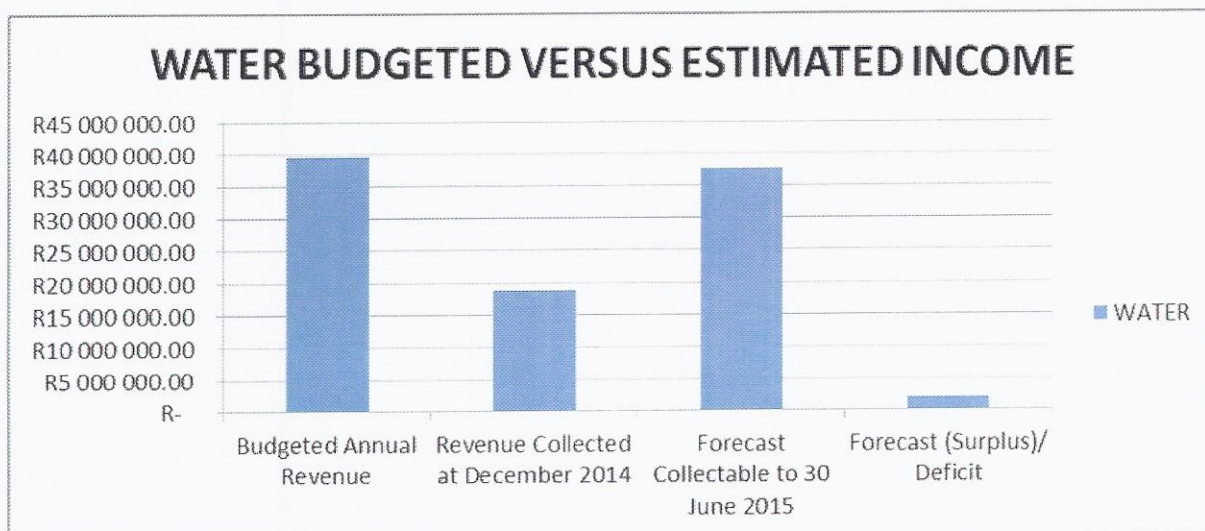
RATES		
	R	%
Budgeted Annual Revenue	55,750,000.00	100
Revenue Collected at December 2014	27,051,099.20	48,5
Forecast Collectable to 30 June 2015	54,102,198.40	97
Forecast (Surplus)/Deficit	1,647,801.60	3



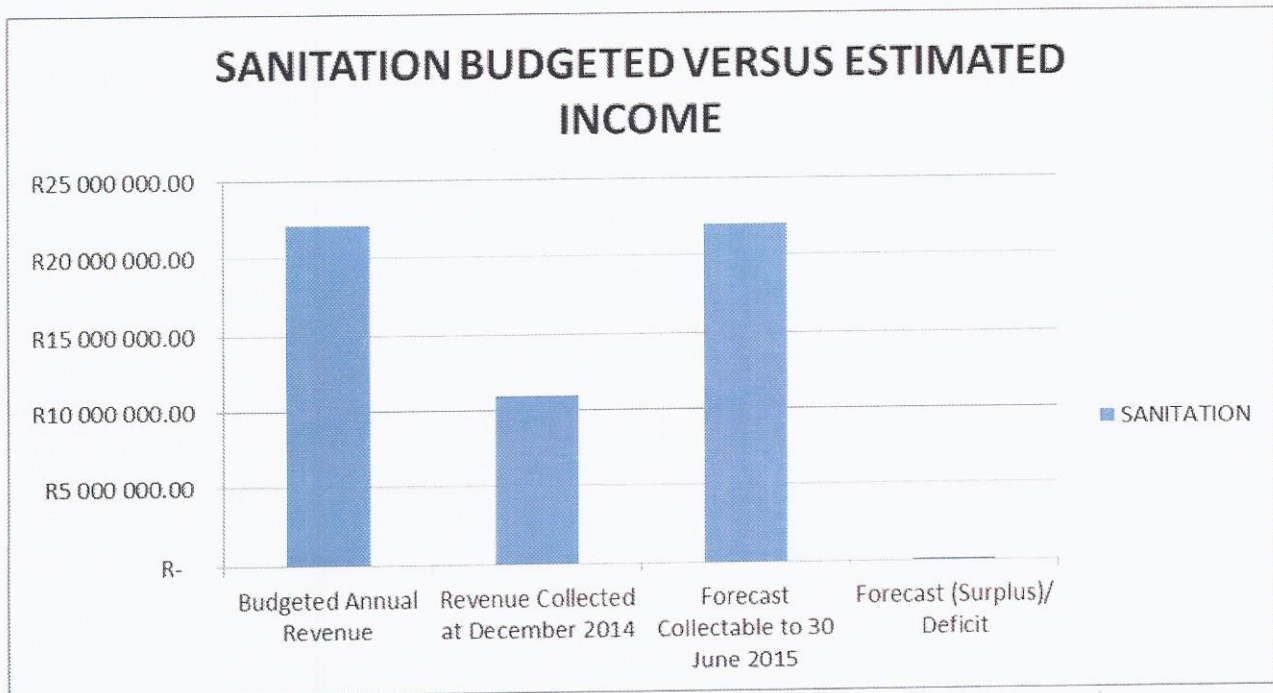
ELECTRICITY		
	R	%
Budgeted Annual Revenue	161,919,370.00	100
Revenue Collected at December 2014	74,467,945.68	46
Forecast Collectable to 30 June 2015	148,935,767.34	92
Forecast (Surplus)/Deficit	12,983,602.66	8



WATER		
	R	%
Budgeted Annual Revenue	39,758,700.00	100
Revenue Collected at December 2014	18,875,942.44	47,5
Forecast Collectable to 30 June 2015	37,751,884.88	95
Forecast (Surplus)/Deficit	2,006,815.12	5

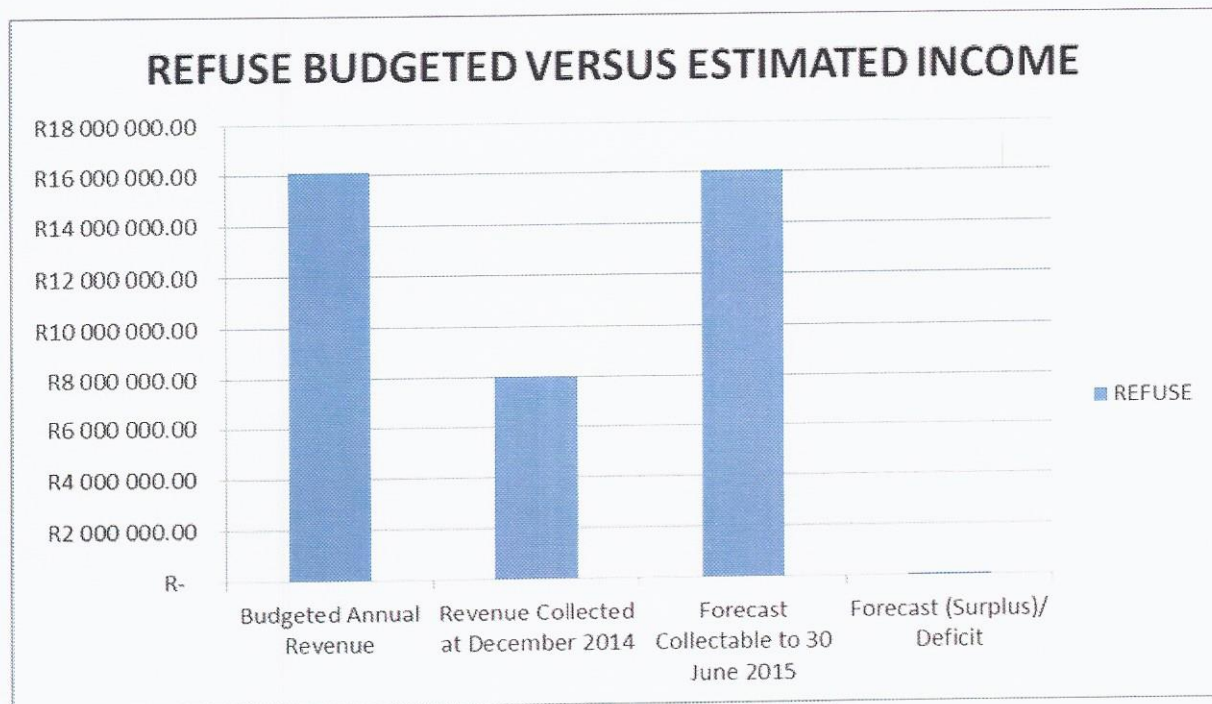


SANITATION		
	R	%
Budgeted Annual Revenue	22,170,110.00	100
Revenue Collected at December 2014	11,037,365.67	49,8
Forecast Collectable to 30 June 2015	22,074,731.34	99,5
Forecast (Surplus)/Deficit	95,378.66	0,5





REFUSE		
	R	%
Budgeted Annual Revenue	16,136,010.00	100
Revenue Collected at December 2014	8,025,313.36	49,7
Forecast Collectable to 30 June 2015	16,050,626.72	99,5
Forecast (Surplus)/Deficit	85,383.28	0,5





OTHER OPERATING INCOME			
	Budget	YTD Actual	%
Council & Executive – Council	8,517,000.00	0.00	0
Vehicle Registration	2,346,750.00	938,901.94	40
Tourism	100,000.00	0.00	0
Corporate Administration	1,385,450.00	73,604.60	5,3
Human Resources	663,430.00	92,517.33	13,9
Other Finance	10,387,900.00	3,496,892.03	33,6
Community Development	2,521,680.00	84,905.65	3,4
Museum	299,000.00	0.00	0
Public Safety	6,057,980.00	1,528,601.00	25,2
Development Planning	582,220.00	67,462.65	11,6
Roads & Storm water	168,840.00	119,858.19	71
Cemetery	205,060.00	95,938.24	46,8
Library	3,012,110.00	2,994,260.80	99,4
Equitable Share	87,851,000.00	69,587,000.00	79,2
Community Admin	50,560.00	0.00	0

OPERATING EXPENDITURE					
	Annual Budget	YTD Budget	YTD Actual	Forecast Outturn	Forecast Variance
Salaries	113,682,320	56,841,160	55,632,241	106,889,097	6,793,223
Councillor Allowances	15,495,110	7,747,555	7,198,052	14,396,103	1,099,007
General Expenses	250,227,950	125,113,975	115,548,176	252,221,932	(1,993,982)
Repairs & Maintenance	29,402,970	14,701,485	7,771,316	30,336,983	(934,013)
Capital from own funding	13,235,920	6,617,960	237,093	12,261,346	974,574
Depreciation	20,769,520	10,384,760	10,384,760	20,769,520	-
Contributions	10,812,680	5,406,340	5,492,130	10,812,680	-
<b>Total</b>	453,626,470	226,813,235	202,263,768	447,687,661	5,938,809
CAPITAL BUDGET FROM EXTERNAL FUNDING					
	Annual Budget	YTD Budget	YTD Actual	Forecast Outturn	Forecast Variance
<b>MIG Funding</b>	34,158,000.00	17,079,000.00	10,054,616	20,109,232	14,048,768
Vryheid Ext Bulk Outfall Sewer					
eMondlo Roads & Storm water					
6B Bus Route Bhokuzulu					
Rural Roads					
<b>Department of Energy</b> Electrification	9,000,000.00	4,500,000.00	4,754,714	9,509,428	(509,428)



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

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 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 2014/2015 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 – 4 553 average per month
- b) Free Electricity – 50 kwh per month
- c) Cost per annum – R 2,624,573
- d) Free Water – 1 697 receiving 6 kl per month
- e) Cost per annum – R 2,488,240 including Basic Charge
- f) Free Refuse – 4 493 consumers, value of R 3,472,588 per annum
- g) Free Sanitation – 4 001 consumers, value R 4,680,792 per annum
- h) Free Rates – 2 047 consumers with house values less than R 80,000
- i) Cost per annum - R 1,260,332 per annum

### **Financial Statements – 2013/2014**

The financial statements were completed in time and the municipality received an unqualified audit opinion

### **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 has been uploaded to the Munsoft system during December and will be a live asset register which will be reconciled on a monthly basis.

### **Investments**

Council has an investment portfolio of R 42,7 million; the Council's obligations are as follows:

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

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

### **Debtors**

The debtor's book commenced at the beginning of July 2014 with R 84,955,603 and is currently showing R 90,769,915 million which is R 5,814,312 more and compared to last year July 2013 there is an increase of R 24,556,764. From December 2013 to December 2014 the debtor's book has increased by R 16,533,492.

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 Bhekuzulu 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 2014/2015							
TOTAL	Vhd/Bhz/Louws /Hlob/Coro	VHD/BHZ	Hlobane	eMondlo	Louwsburg	Coronation	
KILOLITRES PURIFIED	3,937,820	2,247,000	101,280	1,506,800	79,620	3,120	
KILOLITRES SOLD	1,986,223	1,332,226	24,462	582,465	44,757	2,313	
KILOLITRES NOT ACCOUNTED FOR	1,951,597	914,774	76,818	924,335	34,863	807	
OR %	49.56%	40.71%	75.85%	61.34%	43.79%	25.87%	

ELECTRICITY					
For July 2014 to December 2014					
TOTAL	VHD BHEKUZULU	eMONDLO	HLOBANE	CORONATION	
Purchased	80,543,006	11,324,414	2,659,348	3,238,575	
Sales	64,491,451	7,255,413	936,771	217,996	
Losses	15,658,012	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 95,28% which is 18.34% more in comparison with the first quarter and 6.99% more than the collection rate at the same time last year.

The number of paying consumers decreased from 35,672 during the first quarter to 35,360 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 2014.

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 2014/2015 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

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**AUTHOR**

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**DATE**

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**CHIEF FINANCIAL OFFICER**

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19/1/15

**DATE**

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

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**ACTING MUNICIPAL MANAGER**

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21/01/2015

**DATE**

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

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**ADMINISTRATOR**

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**DATE**

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

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## QUALITY CERTIFICATE

I, N Sibisi, 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 2014 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

**N SIBISI**  
**ACTING MUNICIPAL MANAGER**  
**ABAQULUSI MUNICIPALITY**  
**KZN263**

SIGNATURE: \_\_\_\_\_

DATE: 21/01/2015





## 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 November Monthly Report

☐

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

☐

Mid-year Performance Assessment

☒

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

19/1/15

DATE