

2018-2019
ADJUSTMENT BUDGET
REPORT
26 FEBRUARY 2019



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PURPOSE OF THE REPORT

To seek approval from Council on the adjustments proposed to the 2018/2019 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 must 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.)

The importance of tabling funded budgets is highlighted in MFMA Circular 89 and is one of the game changers identified in local government to ensure financial sustainability. The municipality has challenges in correcting the budget to ensure it is funded in one financial year. As a result, the municipality must together with the 2019/20 MTREF budget table a plan in the council on how and by when the budget will improve from an unfunded to a funded position.

Virements may be used by the municipality to address differences between the mSCOA data string and the Council approved budget. In line with this the virement policy needs to be reviewed and aligned to mSCOA requirements. The virement policy is required to be aligned to MFMA Circular 51. Cognizance must be taken of a change to any of the prescribed segments of mSCOA. Restrictions and/or limitations within MFMA Circular No 51 must be adhered to when aligning the virement policy to the requirements of mSCOA.

The Adjustment budget submission must ensure that the project detail (IDP) contains all projects from the strategic initiative of the municipality and are aligned to the financial data contained in the adjustment budget.

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.

ADJUSTMENT BUDGET PRESENTATION

2018/2019 Adjustments budget presentation by his worship the Mayor, Councillor MJ Sibiya, at Abaqulusi Council Chambers, on 28 February 2019 at 10h00 at a Council meeting and an Exco meeting on Monday 25 February 2019 at 09h00.

Mr Speaker, I wish to present an overview of the adjustment budget for the 2018/2019 budget year. This adjustment document is prepared in terms of the Municipal Budget and Reporting Regulations.

With the tabling and approval of the 2018/2019 budget, a strong focus is placed on Service Delivery and fighting poverty.

It is important to state that the focus of the adjustment budget is based on the result of the Mid-year review concentrating 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 before Council in January 2019 on the 31st of January 2019.

Operating Budget Revenue

The municipality collected 98% of the property rates compared to the approved budget at mid-year which is R35,2 million collected against a budget of R35,9 million.

Revenue from service charges was under collected as follows:

Revenue from electricity actual is 90,71% or R81,1 million and budget of R89,4 million and the estimated actual for the financial year is R162,2 million

Revenue from water actual is 89,78% or R16,5 million and budget of R18,4 million and the estimated actual for the financial year is R33 million

Revenue from sanitation is 178,93% or R13,4 million and budget of R7,5 million, the estimated actual for the financial year is R26,8 million

Revenue from refuse collection is 163,11% or R9,5 million and budget of R5,8 million and the estimated actual for the financial year is R19 million

The collection of revenue from fines is 85,5% or R525 thousand compared to a budget of R614 thousand

Revenue collected for licences and permits amounts to 70,45% or R1,7 million compared to the mid-year budget of R2,4 million

Revenue from investments is 26,54% or R245 thousand compared to a mid-year budget of R923 thousand

Total internal revenue estimated for the financial year is R329,6 million, total equitable share and operating grants of R163,5 million and R36,1 for capital grants

In total 118% of revenue or R283,6 million compared to the budget of R240,3 million has been received. The main reason for the actual revenue being more than the budget is the 2 tranches of equitable share that have been received to date.

The total estimated revenue for 2018/2019 is R529,3 million

Expenditure

The actual expenditure for the first 6 months is 84,08% or R227 million against the approved budget of R270 and this is attributed to:

- Employee costs of 102,58% or R75,6 million compared to the budget of R73,7 million due to staff appointed in positions not budgeted, overtime costs are lower than budget and bonuses paid in December
- Bulk purchases of 76,14% which is due to Eskom accounts being paid 1 month in arrears so only 5 accounts have been paid in the 1st six months of the year, there is currently an amount of R55,734,909 owing to Eskom
- Free basic services costs have not been expensed due to all indigent applications having to reapply. From the 1st of April to the 31st of May 2019 all new applications must be submitted for the 2019/2020 financial year
- To date 111,4% or R11,6 million has been spent on Repairs and Maintenance mainly due to repairs to pumps in water and sanitation.
- Funding needs to be identified to purchase 1 pump to ensure the provision of water without interruption

Main Challenges

- The ongoing challenge due to the ageing of water and sanitation pumps is impacting on expenditure and communities being without water
- The ongoing theft of cable and cutting of poles is a big loss of income from service charges. The average cost is approximately R60 thousand a week when calculated over a 52 week period it costs the municipality R3 million just for material

- 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 growth of the debtor ageing and indigent applications, the municipality is struggling to maintain a 90% collection rate as in the past
 - The non-collectable debtors amounts to R4,074,115.90 which should be written off as no debt has been written off since 2012
 - The collectable debtors amounts to R170,907,155.58 of which R143,378,462.25 is older than 90 days
- Ageing infrastructure for water, sanitation, roads and electricity as well as limited resources 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

Achievements

During the 1st half of the year the municipality managed to spend 41% on MIG and INEP and the report from Eskom on projects electrified by them is attached

Focus

As it is clear that the municipality is cash strapped, over and above cost containment measures preferred by the National Treasury, the municipality needs to adopt a bold and radical approach in its revenue enhancement program. As a matter of utmost urgency, the municipality needs to consider the following from March ongoing:

- ✓ Clean up and compile a credible consumer database
- ✓ Disconnect fraudulent consumers, in all respects
- ✓ Provide and replace water meters
- ✓ Reconnect and ration water to consumers
- ✓ Migrate to solar street lighting
- ✓ Clean up the indigent register
- ✓ Source funding from National Departments
- ✓ Rehabilitate our environment
- ✓ Improve tourist attraction
- ✓ Make a foot print on local economic development
- ✓ Update the water distribution register
- ✓ Deal with employment costs in particular posts that are not budgeted
- ✓ Review all budget related policies as soon as possible to circumvent high tariff increases and ensure the policies are mSCOA compliant

- ✓ Using funds for purposes they are meant for and have time-lined implementation plans
- ✓ S&T usage needs verification and approval. Fraudulent claims should stop
- ✓ Ward IDP

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 Municipal Manager and 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 must 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. Trust us we are equal to the task.

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. Trust us we will gradually achieve this

Mr 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 2018/2019 adjustments budget.

I would like to make the following recommendations: (Proposed Resolutions)

1. That the operational expenditure budget be adjusted from R 540 million inclusive of non-cash items to R 561,7 million. The expenditure has been increased as the Department of Sport and Recreation have allocated an amount of R50,000 for the utilization and maintenance of sport and recreation facilities. The Department of Energy has transferred R7,5 million for solar projects
2. That the revenue budget be adjusted from R 480,6 million to R493,2 million excluding capital transfers and contributions. The revenue from sanitation and refuse has been increased and the Department of Sport and Recreation have allocated an amount of R50,000 for the utilization and maintenance of sport and recreation facilities. An additional amount of R7,5 million has been received from Department of Energy
3. That the capital budget from grant funding is increased as an amount of R1,5 million has been allocated by COGTA for the provision of water and sanitation including the massification project including electricity projects

4. That the payment levels which have always been above 95% but reduced in the 2nd quarter to 88,89% be monitored and ensure the 95% is again achieved
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 2018/2019 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 projects other than the projects for infrastructure maintenance be blocked and expenditure only be incurred if supporting documentation motivating the expenditure be submitted to the Accounting Officer and CFO for approval **prior** to the expenditure being incurred
11. No hand orders be issued for suppliers, only suppliers registered on the CSD be utilized to ensure there is no expenditure incurred for which there is no budget.
12. The list of orders attached which have been incurred by suppliers not registered on the Central Suppliers Database of National Treasury which has resulted in irregular expenditure be condoned.

COUNCILLOR MJ SIBIYA
MAYOR

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 2018/19 is based on the realisation that revenues and cash flows 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

During the approval of the 2018/2019 budget we had advised that the cash collection rate may still feel the impact of the recession the country is experiencing. In the previous financial year, the collection rate was 88,89% and for the six months of this financial year it has increased to 89,88%

Some of the anticipated own revenue collection on trading services (e.g. Electricity & Waste Management) has not materialised as projected, however when compared to the 1st six months in the previous financial year revenue has increased and is much more in line with the budgeted amount for water and electricity

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 are in keeping with the cost containment that has been implemented

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.

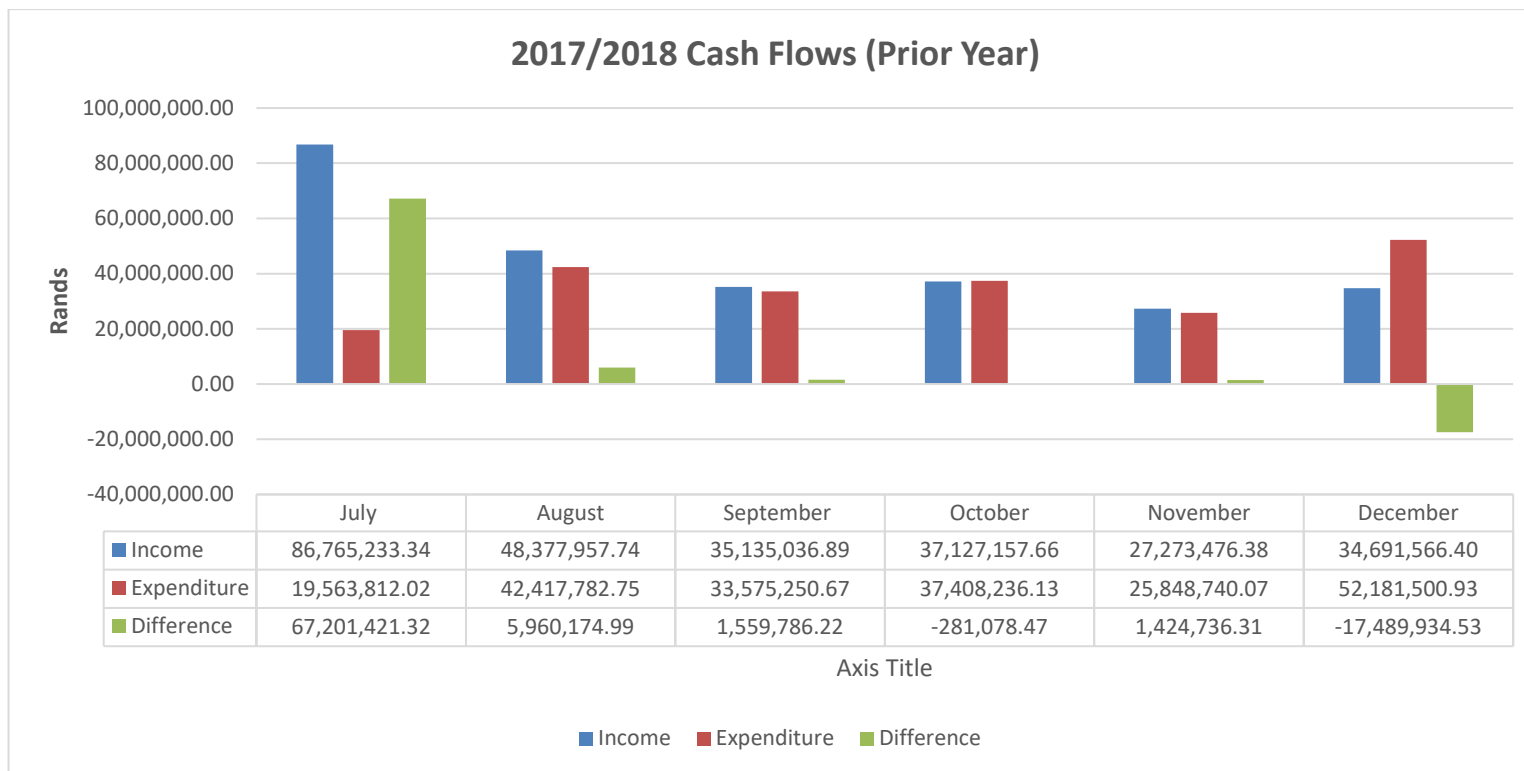
Vulnerable cash position

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.

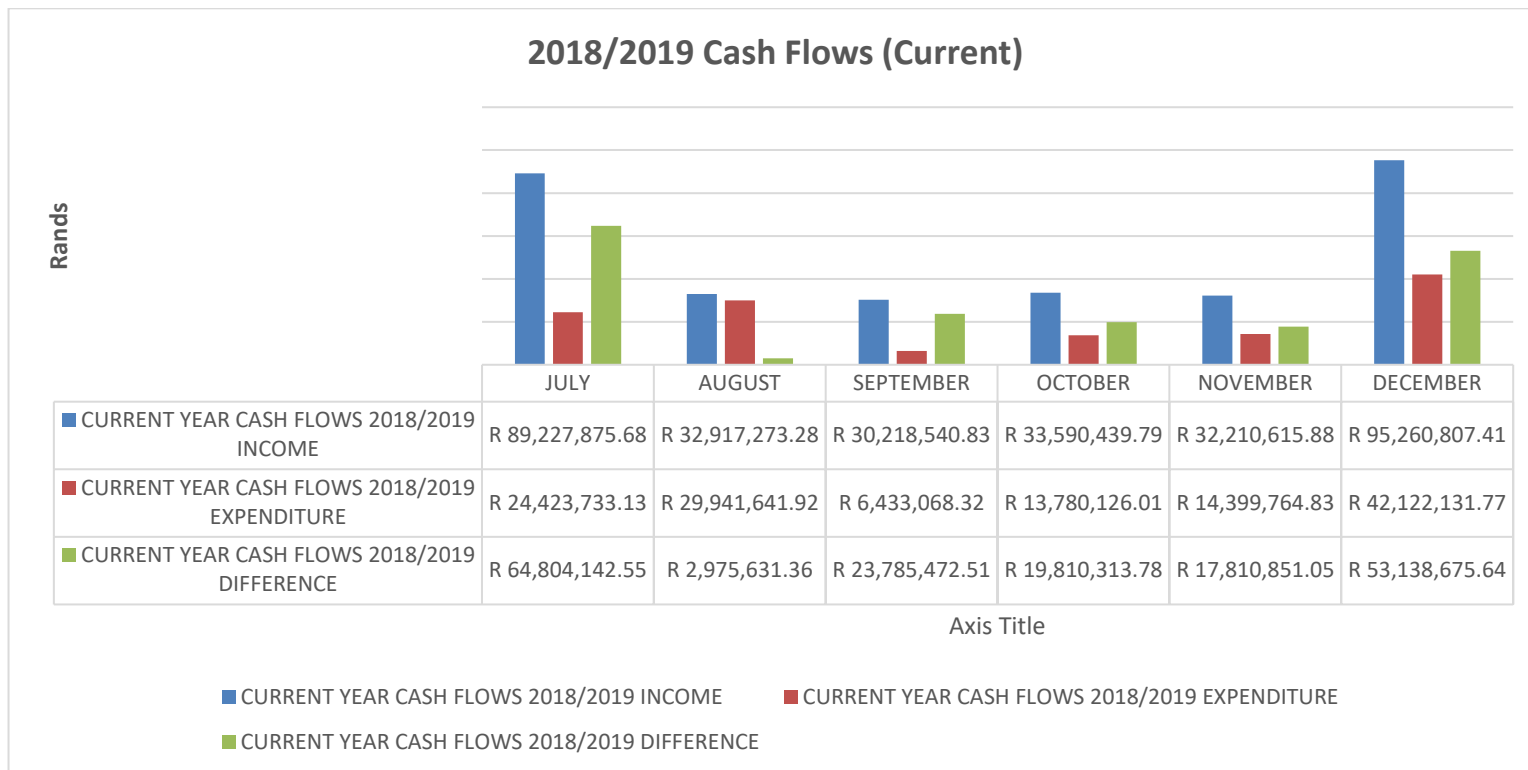
Of the reasons noted by National Treasury why municipalities' cash coverage is:

- 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.

PRIOR YEAR CASH FLOWS 2017/2018			
	INCOME	EXPENDITURE	DIFFERENCE
JULY	R 86 765 233.34	R 19 563 812.02	R 67 201 421.32
AUGUST	R 48 377 957.74	R 42 417 782.75	R 5 960 174.99
SEPTEMBER	R 35 135 036.89	R 33 575 250.67	R 1 559 786.22
OCTOBER	R 37 127 157.66	R 37 408 236.13	-R 281 078.47
NOVEMBER	R 27 273 476.38	R 25 848 740.07	R 1 424 736.31
DECEMBER	R 34 691 566.40	R 52 181 500.93	-R 17 489 934.53
	R 269 370 428.41	R 210 995 322.57	R 58 375 105.84



CURRENT YEAR CASH FLOWS 2018/2019			
	INCOME	EXPENDITURE	DIFFERENCE
JULY	R 89 227 875.68	R 24 423 733.13	R 64 804 142.55
AUGUST	R 32 917 273.28	R 29 941 641.92	R 2 975 631.36
SEPTEMBER	R 30 218 540.83	R 6 433 068.32	R 23 785 472.51
OCTOBER	R 33 590 439.79	R 13 780 126.01	R 19 810 313.78
NOVEMBER	R 32 210 615.88	R 14 399 764.83	R 17 810 851.05
DECEMBER	R 95 260 807.41	R 42 122 131.77	R 53 138 675.64
	R 313 425 552.87	R 131 100 465.98	R 182 325 086.89



Risks posed by the current state of finances

The municipality must ensure that it does 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 are 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

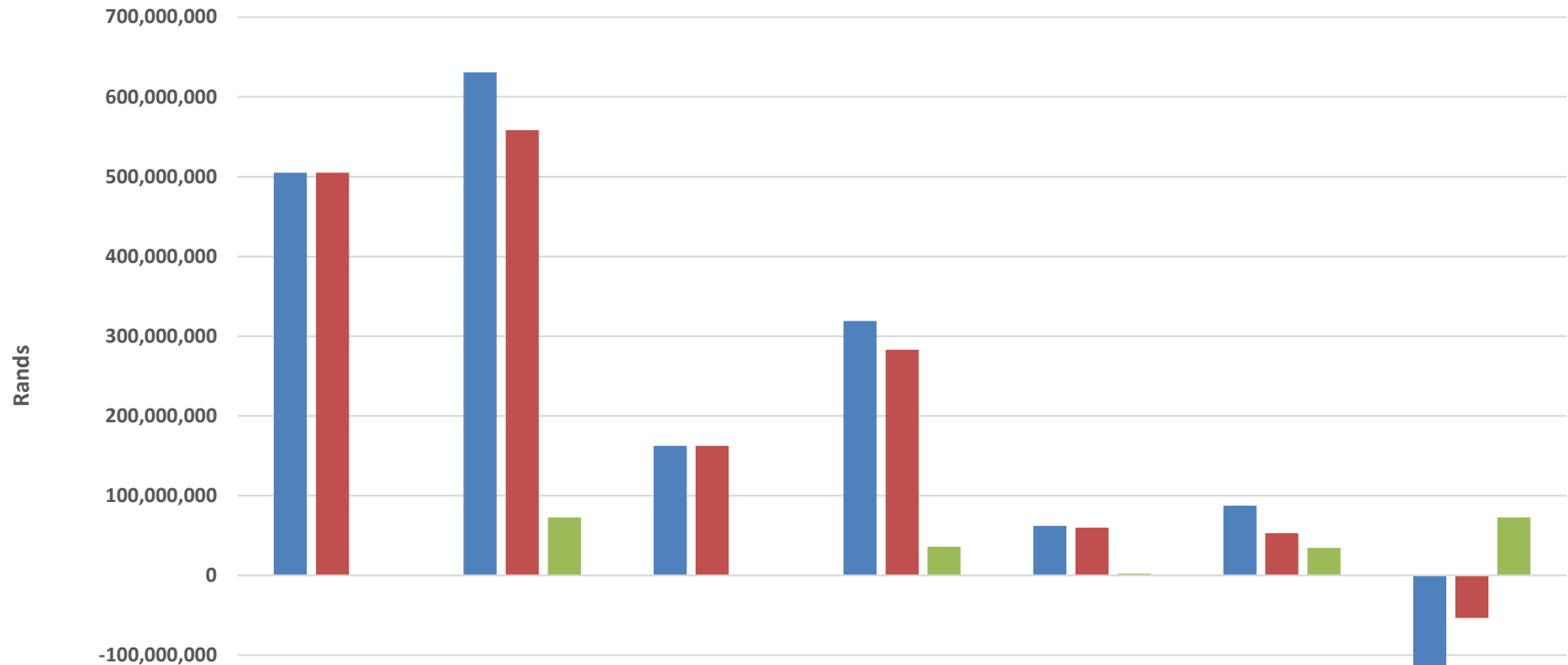
Budget Related Resolutions

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 R'000	Adjustment Budget R'000	Variance Fav (Unfav) R'000
Total Revenue	R480,672	R493,206	R12,534
Total Operating Expenditure	R581,362	R597,818	(R16,456)
Employment Costs	R147,553	R158,768	(R11,215)
Operating Expenses	R330,925	R330,342	R583
Capital	R41,284	R36,112	R5,172
Depreciation – non-cash	R61,600	R72,596	(R10,996)
(SURPLUS)/DEFICIT	(R100,690)	(R36,112)	(R3,922)

Summary of Financial Performance for 2018/2019



	Total Revenue	Total Operating Expenditure	Employment Costs	Operating Expenses	Capital	Depreciation - Non-Cash	(Surplus)/Defecit
■ Approved Budget	504,880,000	630,797,671	162,278,861	319,031,054	61,972,000	87,515,756	-125,917,671
■ Adjusted Budget	505,045,000	558,145,244	162,278,860	282,911,140	59,855,000	53,100,244	-53,100,244
■ Variance Fav (Unfav)	165,000	72,652,427	1	36,119,914	2,117,000	34,415,512	72,817,427

■ Approved Budget ■ Adjusted Budget ■ Variance Fav (Unfav)

The operating expenditure variances against budget are:

- Employee costs – R 1,9 million more than budget. Overtime costs is less than in the previous financial years with expenditure for the year to date of R5,390,404.12 (five million, three hundred & ninety thousand, four hundred & four rand) which is R1,4 million less than budget and the projected amount for the year is R10,7 million.
- Repairs and Maintenance – R 1,1 million more than budget, this is due to extensive and ongoing repairs to water and sanitation pumps.
- Bulk purchases – to date Eskom has been paid R55,1 million and there is still an amount of R55,1 million owing to Eskom
- General expenses – S &T for the year to date is R R1,263,818 (one million, two hundred & sixty-three thousand, eight hundred & eighteen rand) and R849,734 more than in the 2017/2018 financial year and projected to be in line with the budget for the year, however certain departments will have to monitor the spending within their departments which are estimated to overspend if the current spending continues. Departments and Council must be conservative in allowing Councillors and staff to attend workshops and meetings as this is one of the cost containment measures that National, Provincial Treasury and COGTA is monitoring.
- Capital from own funding – the budget has been decreased by R 2,1 million, the decrease is due to the negative cash flow.
- Depreciation – the budgeted has been increased to R72,5 million.
- The depreciation which is a non-cash item is resulting in the 2018/2019 adjustment budget showing a deficit of R 68,5 million. The municipality will going forward have to start budgeting for the depreciation (impairment of assets) as the infrastructure and assets of the municipality are ageing and funding is required to replace the assets.

CHALLENGES FOR THE 2ND HALF OF 2018/2019

The major challenge the municipality faces going forward is that due to the depleted revenue and the current over commitments the general expenditure will be blocked. 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 needs 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

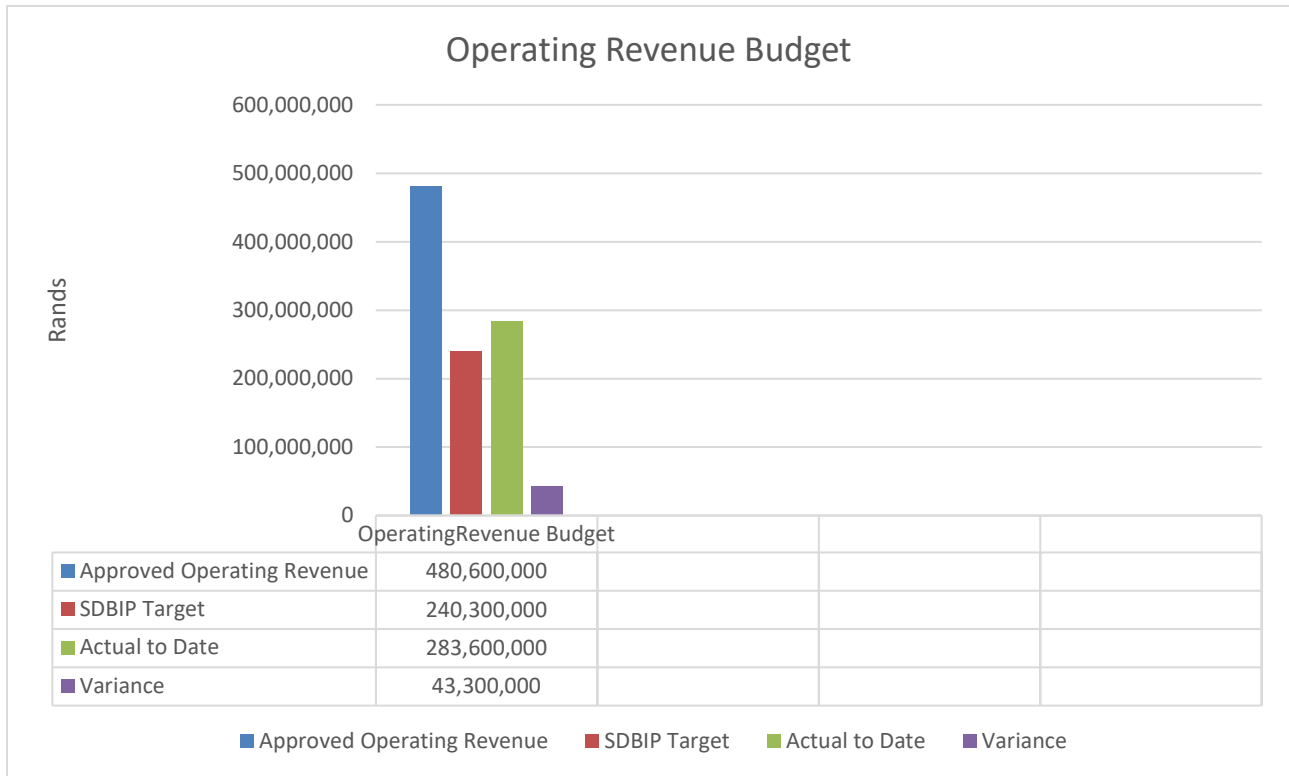
approved by the Accounting Officer and consultants may only be remunerated in terms of the guidelines issued by SAICA.

- Hotel accommodation must be in terms of the National Treasury policy. 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.
- 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 R480,6 million. For the period under review the planned SDBIP target is R240,3 million and the actual revenue collected to date is R283,6

million. When comparing the planned against the actual revenue there is a 18% over performance shown. This is mainly due to the 1st and 2nd tranche of Equitable Share having been received as well as 67,5% of the MIG and 33% of the INEP grants as well as an additional R7,5 million funding from INEP. The Arts & Culture grants for the Library were received during December 2018.



Reasons for major variances between planned and actual revenue collected:

- revenue from electricity sales is 9,29% below the planned projection, this is due to electricity losses
- revenue from water sales is 10,22% below the planned projection
- revenue from sanitation sales is 78,93% above the planned projection
- revenue from refuse sales is 63,11% above the planned projection
- the collection of fines is 22,18% behind the planned projection. The collection of fines needs to be accelerated
- revenue from other sources needs have been investigated and projections corrected during the Adjustment Budget
- revenue from service charges income has increased when compared to the previous financial year
- 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.

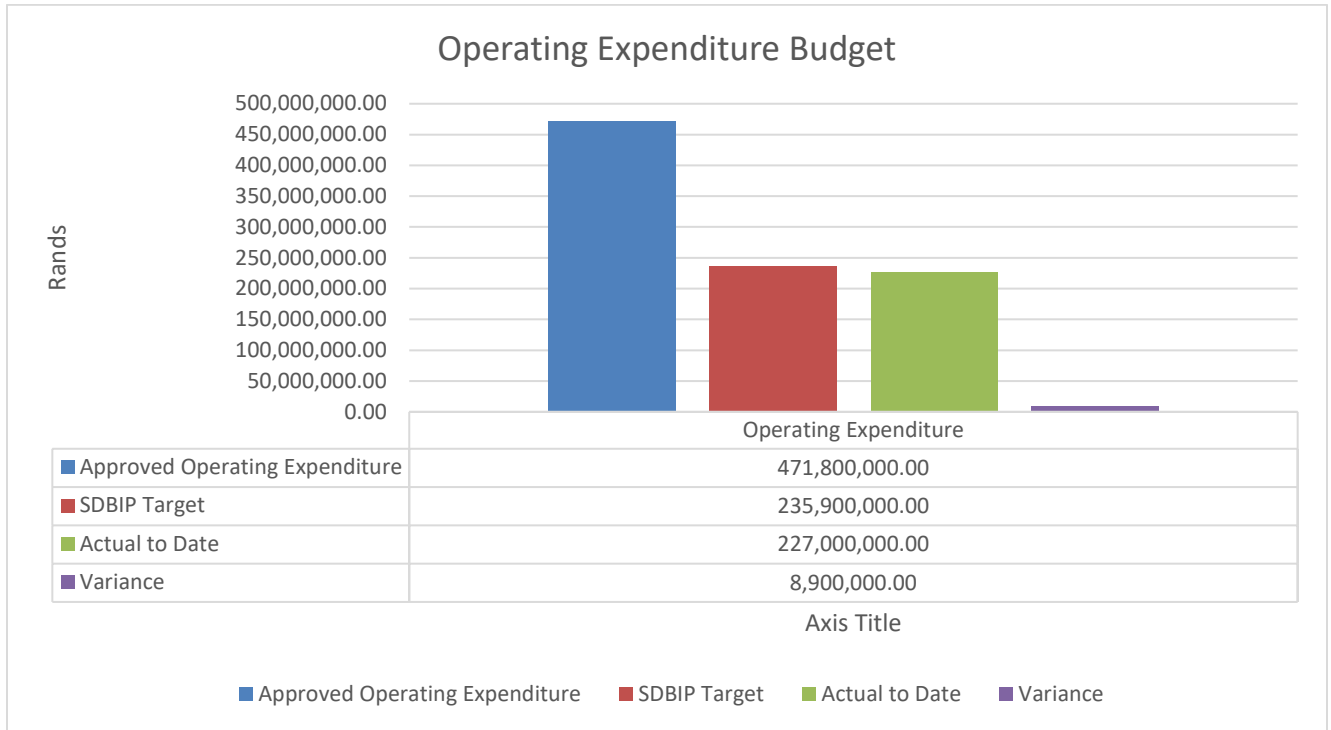
The municipality is still expected to deliver services in an area which is growing with fewer funds to do so.

The major operating revenue variances against budget to date are:

- Property rates including penalties and collection charges – R 772,000 less than budget
- Service charges – R 560,000 less than budget
- Government Grants and subsidies – Operating – no additional equitable share allocated by National Treasury to local municipalities
- Government Grants and subsidies – Capital – an amount of R7,5 million has been received from INEP and an amount of R1,5 million has been gazette from COGTA for the provision of water and sanitation services to Abaqulusi Municipality
- Other Income – R 13,6 million more 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 471,8 million, excluding the non-cash items. For the period under review the planned SDBIP target is R 235,9 million and the actual expenditure to date is R 227 million. When comparing the planned against the actual expenditure there is only a 3% saving



Reasons for major expenditure variance variances against budget are:

- Employee costs – R 1,9 million more than budget. Overtime costs is less than in the previous financial years with expenditure for the year to date of R5,390,404.12 (five million, three hundred & ninety thousand, four hundred & four rand) which is R1,4 million less than budget and the projected amount for the year is R10,7 million.
- Repairs and Maintenance – R 1,1 million more than budget, this is due to extensive and ongoing repairs to water and sanitation pumps.
- Bulk purchases – to date Eskom has been paid R55,1 million and there is still an amount of R38 million owing to Eskom
- General expenses – S &T for the year to date is R R1,263,818 (one million, two hundred & sixty-three thousand, eight hundred & eighteen rand) and R849,734 more than in the 2017/2018 financial year and projected to be in line with the budget for the year, however certain departments will have to monitor the spending within their departments which are estimated to overspend if the current spending continues. Departments and Council must be conservative in allowing Councillors and staff to attend workshops and meetings as this is one of the cost containment measures that National, Provincial Treasury and COGTA is monitoring.

The approved capital budget amounts to R41,2 million. For the period under review the planned SDBIP target is R20,6 million and the actual expenditure to date is R12,9 million It must be noted that MIG projects were only approved during the 2nd quarter of 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.

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 – Transformers – due to financial constraints transformers are purchased when required
- Electricity Reticulation – Cross Roads Substation – due to financial constraints this project will be phased over 2 years
- Electricity Reticulation – Lighting – due to financial constraints material and machinery required to maintain street lighting cannot be purchased
- Water Reservoirs & Reticulation – replacement of water pipes in eMondlo to control leaks
- 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 2018, R174,9 million was outstanding for debtors, with R143,3 million outstanding for longer than 90 days.

The municipality had appointed Bigen Africa to assist with the debtor's book, however their contract expires at the end of February 2019. 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.

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 2018/2019 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 projects 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.

- The reduction of overtime costs by implementing stricter monitoring controls and limiting the number of hours per employee to 40 hours per month.

Our Ref.: 9/1/1/7

Your Ref.

Enquiries: H A Mahomed

Dept.: Finance



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c/o, Mark & High Street



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QUALITY CERTIFICATE

I, **BE Ntanzi**, Municipal Manager of **ABAQULUSI MUNICIPALITY**, hereby certify that:
(mark as appropriate)

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

The Adjustment Budget 2018/2019 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act.

BE NTANZI
MUNICIPAL MANAGER
ABAQULUSI MUNICIPALITY
KZN263

DATE

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Your Ref.

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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