

12548

FINANCIAL REPORTING AS AT 31 MAY 2018

This report is submitted simultaneously to the Financial Services, Executive Committee and Council.

PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 31 May 2018, as required in terms of the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial and Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 Apply adequate financial management methodologies

Section 71 of the Municipal Finance Management Act (MFMA), (Act 56 of 2003) prescribes certain conditions that need to be complied with, in terms of the mentioned Act.

The Accounting Officer of the Municipality must report by no later than 10 working days after the end of each month to the Mayor and the relevant Provincial Treasury, a statement in the **prescribed format** on the state of the Municipality's budget.

Section 66 of the Municipal Finance Management Act further prescribes that all expenditure incurred by the Municipality on staff salaries, allowances and benefits be reported upon in a format and for the prescribed period. It is considered appropriate to report on this section of the Act on a monthly basis to coincide with the reporting requirements of Section 71(1) of the Act.

As mentioned above, the MFMA Section 71 (1) refers to a prescribed format according to which the annual budget is required to be prepared. The National Treasury issued MFMA Circular No 51 (**DMS 633560**) in which this prescribed format was set out.

Furthermore, the National Treasury issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to prepare the 2010/2011 Budget as well as the in-year reporting effective from July 2010.

The objectives of the budget format reforms in terms of these regulations are:

- ❖ To ensure that the Municipal budget and financial reporting formats support the other financial management reforms introduced by the Municipal Finance Management Act (MFMA).
- ❖ To formalise the norms and standards governing Municipal Budget and Financial Reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of Municipalities.
- ❖ To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability.
- ❖ To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

The Minister of Finance has, in terms of Section 168 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs issued the Municipal Regulations on Standard Chart of Accounts as set out in Government Gazette No 37577 (**DMS 974357**) dated 22 April 2014.

These Regulations apply to all Municipalities and Municipal entities and indicate its applicability and relevance to each specific Municipal environment while accommodating organisational uniqueness and structural differences. These regulations take effect on 1 July 2017.

The objective of these regulations is to provide for a national standard, uniform recording and classification of municipal budget and financial information at transactional level by prescribing a standard chart of accounts for municipalities.

Once these regulations are effective, the financial reporting will be aligned (budget reporting and financial statements reporting). The regulations require that the financial system used by Municipalities must be compliant with the Standard Chart of Accounts. This means that the financial systems of Municipalities must be capable to accurately record all financial transactions in terms of the required segments. The current financial system used by the Municipality does not provide for the recording of financial transactions as required by the regulations.

The implementation of these regulations requires that the Municipality must proactively procure a financial system solution that will be compliant with the Standard Chart of Accounts. Of similar importance is the provision for training of responsible officials to ensure that they attend the trainings and workshops to be provided by the National Treasury.

In terms of Council Resolution 8901 dated 26 November 2013, Council was selected as a Pilot Site for the mSCOA implementation.

Section 1 of the MFMA defines the Service Delivery and Budget Implementation Plan (SDBIP) as:

“A detailed plan approved by the Mayor of a municipality in terms of Section 53(l)(c)(ii) for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate:

- (a) *Projections for each month of-*
- (i) *Revenue to be collected, by source; and*
- (ii) *Operational and capital expenditure, by vote.”*

Component 1, comprised of actual revenue collected by source and Component 2, comprised of actual operational and capital expenditure by vote for the month of May 2018 is included under **Annexures Z and AA (DMS 1279914)**.

DISCUSSION

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 71 and Section 74 of the MFMA in electronic format.

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PART 1 – IN-YEAR REPORTING

1. MAYOR'S REPORT FOR THE MONTH – MAY 2018

In terms of the Budget Regulations, Part 1 in-year reporting, the Mayor is required to provide a report / comments on:

- “(a) a summary of whether the Municipality's budget is being implemented in accordance with the service delivery and budget implementation plan and any service delivery agreements with municipal entities;

The Mayor has considered the Section 71 report for the month of May 2018, and the performance of the Municipality against its budget is in line with the adjusted budget that was approved by Council in May 2018. A detail of all the points highlighted by the Mayor is included in the report.

Operational Budget

The monthly budget statement summary (Table C1) for the month of May 2018 (year to date actual), shows a deficit of R36 million. This deficit is however less than the Pro-rata Adjusted Budget deficit of R 57.8 million. The performance in this area is **Acceptable as the actual deficit is less than the budgeted deficit**, however the budget deficit even if forecasted must be an exception and not a norm.

Capital Budget

Council is in the fourth quarter of the financial year and capital expenditure is low at R321 million (56,34%). This is based on the Adjusted Capital Budget of R571 million. Expenditure is expected to rise as the year progresses. The Project steering Committee is monitoring the capital projects to ensure that any issues are resolved promptly. The performance in this area is **NOT Acceptable**. The level of expenditure is supposed to be at least around 92% (R523 million) and administration needs a strategy to expedite expenditure or SCM processes in this regard.

Cash Flow

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 3,12:1 (642 536/206 251). Therefore, the Municipality has a positive bank balance to defray its expenses. The performance in this area is **Acceptable**.

- (b) a summary of any financial problems or risks facing the municipality or any such entity; and

Currently there are **no** major financial problems or major risks facing the municipality based on this report that requires intervention. However, the following are matters highlighted which needs to be managed very closely:

1. The collection of outstanding debt remains a challenge in the Traditional Areas. Although Council is doing well when comparing the Municipality with Metros and others, Council still needs to do more on this front. Currently there are meetings conducted at Traditional Authority level where the need for payment of services is emphasised. In these meetings Amakhosi are requesting a meeting with the Municipality leadership to discuss the same;

2. Slow capital expenditure remains a challenge with 56,34% as at May 2018. It is therefore requested that administration works hard to improve on last year's expenditure performance of 93%. Council will carry on monitoring the pattern of this expenditure; and
3. Although the Water Services is showing a surplus of R13 million, this has been achieved on Level 4 drought tariffs. When these tariffs are normalised as the drought crisis eases, the expenditure will have to be reduced to ensure that the trading service maintains a surplus.

(c) **any other information considered relevant by the Mayor**

From the report, overtime remains a challenge and the departments have explained the reasons why such overtime was necessary. It is requested that the overtime expenditure be managed.

2. RESOLUTIONS

Refer to the recommendations contained in this report.

3. EXECUTIVE SUMMARY

This section deals with the financial status of the Municipality at executive level and highlights matters that are of particular importance from the Chief Financial Officer's perspective.

3.1 Status of mSCOA (Municipal Standard Chart of Accounts)

The status in executive summary form is as follows:

As at the end of May 2018, the business reform required to accommodate mSCOA is moving slowly but surely. In short primary issues relate to changing the financial systems to adapt technically and the administration to change from a Line Item to a planned Project way of thinking and budgeting for municipality in service delivery.

From a National Treasury validation perspective, we do a monthly upload of the financial (and certain non-financial) transactions from the General Ledger, which the National Treasury interrogate for integrity purposes. To date we are 100% correct in terms of financial reporting, meeting the mSCOA formats correctly.

The greater challenge is to convert the administration to project based accounting and to get the ERP solution to accommodate this business reform.

3.2 Operating Budget

The following table represents an executive summary for the financial period ended 31 May 2018:

DESCRIPTION	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Revenue (excluding capital grants)	2,966,893,600	2,719,652,467	2,554,228,353	93.92%
Add: Electricity Prepayment for April and May 2018 Due to Change in VAT Rate not Accounted for.	-	-	27,055,400	0.00%
Less: Equitable Share received in advance (May 2018 to June 2018)	-	-	(24,334,000)	0.00%
Capital Grants and Subsidies	(151,738,800)	(139,093,900)	(16,289,745)	11.71%
Gains on Disposal of PPE	-	-	(5,138,751)	0.00%
Adopted Revenue Budget	2,815,154,800	2,580,558,567	2,535,521,257	98.25%
Expenditure	2,878,250,200	2,638,396,017	2,563,295,060	97.15%
Add: Energy Saving initiative provision for expenditure to off-set Revenue received	-	-	8,158,333	0.00%
Adopted Expenditure Budget	2,878,250,200	2,638,396,017	2,571,453,393	97.46%
Surplus/(Deficit)	(63,095,400)	(57,837,450)	(35,932,137)	

3.3 Cash Flow Situation

Council's Working Capital Policy:

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 3,12:1 (642 536/206 251).

MFMA Circular 71:

The Cash/Cost Coverage ratio in terms of MFMA Circular 71 is [(Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation and Provision for Bad Debts, Impairment and Loss on Disposal of Assets)] **and the norm is one (1) to three (3) times the average monthly creditors.**

The calculation for the above ratio is as follows: $[(102\,724 - 3\,756 - 43\,851) + 587\,420] / (2\,878\,250 - 376\,848 - 26\,388) / 12]$ which currently sits at 3,12:1.

It bears noting that in terms of both Council's Policy and the National Treasury MFMA Circular 71, the City of uMhlathuze has suitable cash coverage.

3.4 Grants Balances

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2017	AMOUNT GAZETTED FOR AUGUST 2017	AMOUNT GAZETTED FOR SEPTEMBER 2017	AMOUNT GAZETTED FOR OCTOBER 2017	AMOUNT GAZETTED FOR NOVEMBER 2017	AMOUNT GAZETTED FOR DECEMBER 2017	AMOUNT GAZETTED FOR JANUARY 2018	AMOUNT GAZETTED FOR FEBRUARY 2018	AMOUNT GAZETTED FOR MARCH 2018	AMOUNT GAZETTED FOR APRIL 2018	AMOUNT GAZETTED FOR MAY 2018	TOTAL TO BE RECEIVED AS AT 30/06/2018	AMOUNT RECEIVED AS AT 31/05/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/05/2018	% SPENT	COMMENTS
NATIONAL TREASURY																	
Equitable Share	121 671 000		-	-	-	97 336 000	-	-	73 002 000	-	-	292 009 000	292 009 000	-	267 674 917	92%	In terms of the Constitution, this allocation is to provide for an equitable sharing of National Revenue. It is primarily for the provision of Basic Services
Municipal Infrastructure Grant	16 000 000		-	-	-	44 000 000	-	-	48 742 000	-	-	108 742 000	108 742 000	-	79 040 026	73%	This expenditure is as per claims submitted to COGTA
Financial Management Grant	2 650 000		-	-	-	-	-	-	-	-	-	2 650 000	2 650 000	-	2 225 324	84%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Water Service Infrastructure Grant-WSIG			-	20 200 000	-	-	-	13 800 000	-	-	-	34 000 000	34 000 000	-	33 960 777	100%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Extended Public Works Programme		1 036 000	-	-	1 864 000	-	-	1 243 000	-	-	-	4 143 000	4 143 000	-	4 143 000	100%	The grant is for the operational expenditure for EPWP
Infrastructure Skills Development Grant	2 500 000		-	-	-	-	4 000 000	-	-	-	-	6 500 000	6 500 000	-	3 667 457	56%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Integrated National Electrification Grant	6 000 000		-	4 000 000	-	-	-	-	-	-	-	10 000 000	10 000 000	-	4 446 462	44%	The INEG is a project based grant administered by DOE for the electrification of poor households
Municipal Demarcation Transitional Grant	1 142 000		1 141 000	-	-	-	-	-	3 926 000	-	-	6 209 000	6 209 000	-	5 926 893	95%	This grant is for the dis-establishment of Ntambanana Municipality. Additional allocation R 2 785 000 was received in terms of DORA amendment act in March
Energy Efficiency and Demand Side Management Grant									5 000 000			5 000 000	5 000 000	-		0%	R 5 000 000 was received in terms of DORA amendment Gazette in March
TOTAL NATIONAL TREASURY GRANTS	149 963 000	1 036 000	1 141 000	24 200 000	1 864 000	141 336 000	4 000 000	15 043 000	130 670 000	-	-	469 253 000	469 253 000	-	401 084 856	85%	

NOTES:

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DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2017	AMOUNT GAZETTED FOR AUGUST 2017	AMOUNT GAZETTED FOR SEPTEMBER 2017	AMOUNT GAZETTED FOR OCTOBER 2017	AMOUNT GAZETTED FOR NOVEMBER 2017	AMOUNT GAZETTED FOR DECEMBER 2017	AMOUNT GAZETTED FOR JANUARY 2018	AMOUNT GAZETTED FOR FEBRUARY 2018	AMOUNT GAZETTED FOR MARCH 2018	AMOUNT GAZETTED FOR APRIL 2018	AMOUNT GAZETTED FOR MAY 2018	TOTAL TO BE RECEIVED AS AT 30/06/2018	AMOUNT RECEIVED AS AT 31/05/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/05/2018	% SPENT	COMMENTS
PROVINCIAL TREASURY																	
Provincialisation of Libraries	-	-	7,881,000	-	-	-	-	-	-	-	-	7,881,000	7,881,000	-	20,119,985	255%	The total cost of libraries is indicated in the total expenditure column, However council only receives a subsidy from KZN Provincial library services this means that Council must fund the balance from Rates and General services
Community Library Services Grant (Cyber cadets)	-	-	1,504,000	-	-	-	-	-	-	-	-	1,504,000	1,504,000	-	1,253,754	83%	Expenditure shown is the total operating cost of the Cybercadets for the period, Expenditure is on track.
Housing Operating Account	-	-	2,628,000	-	-	-	-	-	-	-	-	2,628,000	1,316,040	1,311,960	12,020,513	457%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs. Council is required to co-fund Human Settlement cost
Museum Subsidy	-	-	183,000	-	-	-	-	-	-	-	-	183,000	183,000	-	5,840,586	3192%	The total cost of Museum is indicated in the total expenditure column, However council only receives a subsidy from KZN Provincial Library Services this means that council must fund the balance from Rates and General services
TOTAL PROVINCIAL TREASURY GRANTS	-	-	12,196,000	-	-	-	-	-	-	-	-	12,196,000	10,884,040	1,311,960	39,234,838	322%	
TOTAL GRANTS AND SUBSIDIES	149,963,000	1,036,000	13,337,000	24,200,000	1,864,000	141,336,000	4,000,000	15,043,000	127,885,000	-	-	478,664,000	480,137,040	(1,473,040)	440,319,693	92%	

3.5 Capital Budget Summary

The table below represents Capital Expenditure incurred as at 31 May 2018:

FUNCTION	ADJUSTED BUDGET	ACTUAL MAY 2018 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Finance and Administration	125,321,500	60,089,212	47.95%
Community and Social Services	31,912,400	12,380,452	38.80%
Energy Sources	92,796,200	39,878,609	42.97%
Executive and Council	119,000	73,136	61.46%
Environmental Protection	739,900	-	0.00%
Planning and Development	22,142,800	9,805,008	44.28%
Public Safety	7,242,000	6,868,692	94.85%
Road Transport	103,195,300	61,987,812	60.07%
Sport and Recreation	19,470,300	6,689,403	34.36%
Waste Management	2,492,000	458,471	18.40%
Waste Water Management	72,989,600	59,617,442	81.68%
Water	92,083,800	63,587,055	69.05%
	570,504,800	321,435,292	56.34%

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADJUSTED BUDGET	ACTUAL MAY 2018 (YTD)	% OF ADJUSTED BUDGET SPENT
	R	R	%
Borrowing	109,968,500	73,105,369	66.48%
Capital Replacement Reserve	312,797,500	135,181,365	43.22%
MIG	103,304,800	76,128,394	73.69%
Government Grants - National	44,434,000	37,020,164	83.31%
TOTAL	570,504,800	321,435,292	56.34%

3.6 Expenditure per Category

The table below represents operating expenditure per category incurred as at 31 May 2018:

EXPENDITURE BY TYPE	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Employee related costs	716,067,400	656,395,117	639,121,329	97.37%
Remuneration of Councillors	29,533,100	27,072,008	26,882,204	99.30%
Debt Impairment	26,387,500	24,188,542	24,288,652	100.41%
Depreciation and asset impairment	376,848,000	345,444,000	345,450,691	100.00%
Finance Charges	73,638,800	67,502,233	67,521,958	100.03%
Bulk Purchases - Electricity	847,516,600	776,890,217	791,986,076	101.94%
Bulk Purchases - Water	120,000,000	110,000,000	100,677,335	91.52%
Other Materials	68,822,200	63,087,017	62,585,128	99.20%
Contracted Services	229,956,500	210,793,458	237,298,788	112.57%
Transfers and grants	12,161,200	11,147,767	9,956,984	89.32%
Other Expenditure	377,318,900	345,875,658	257,525,915	74.46%
TOTAL	2,878,250,200	2,638,396,017	2,563,295,060	97.15%
Add: Energy Saving initiative provision for expenditure to off-set Revenue received	-	-	8,158,333	0.00%
TOTAL	2,878,250,200	2,638,396,017	2,571,453,393	97.46%

Bulk Purchases – Electricity

Electricity purchases are higher in July and August due to the increased tariff charged by Eskom in the winter months.

3.7 Revenue per Category

The source of funding for the above comprises the following revenue categories:

REVENUE BY SOURCE	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Rates	445,589,200	408,456,767	407,972,853	99.88%
Service Charges – Electricity revenue	1,378,874,300	1,263,968,108	1,187,199,633	93.93%
Service Charges – Water revenue	310,516,400	284,640,033	345,866,150	121.51%
Service Charges – Refuse revenue	94,737,400	86,842,617	89,865,285	103.48%
Service Charges – Sanitation revenue	93,197,200	85,430,767	85,011,517	99.51%
Rental of facilities and equipment	8,008,100	7,340,758	6,446,969	87.82%
Interest earned – external investments	52,001,400	47,667,950	53,989,754	113.26%
Interest earned – outstanding debtors	52,800	48,400	92,579	191.28%
Fines	6,763,000	6,199,417	5,783,417	93.29%
Licences and permits	3,609,000	3,308,250	3,425,666	103.55%
Agency services	7,390,000	6,774,167	5,752,315	84.92%
Operating Grants and Subsidies	328,710,200	301,317,683	313,252,319	103.96%
Capital Grants and Subsidies	151,738,800	139,093,900	16,289,745	11.71%
Gains on Disposal of PPE	-	-	5,138,751	0.00%
Other Revenue	85,705,800	78,563,650	28,141,400	35.82%
TOTAL REVENUE	2,966,893,600	2,719,652,467	2,554,228,353	93.92%
Add: Electricity Prepayment for April and May 2018 Due to Change in VAT Rate not Accounted for.	-	-	27,055,400	0.00%
Less: Equitable Share received in advance (May 2018 to June 2018)	-	-	(24,334,000)	0.00%
Less: Capital Revenue				
Gains on Disposal of PPE	-	-	(5,138,751)	0.00%
Capital Grants and Subsidies	(151,738,800)	(139,093,900)	(16,289,745)	11.71%
TOTAL OPERATING REVENUE	2,815,154,800	2,580,558,567	2,535,521,257	98.25%

The above table represents operating revenue per category as at 31 May 2018.

Service Charges – Electricity Revenue - Electricity Revenue performance was influenced by fluctuations in consumption which occurred with certain key customers - Mondi and Foskor.

3.8 Surplus and Deficit by Service Category

SERVICES	ADJUSTED BUDGET 2017/2018			ACTUAL AS AT 31 MAY 2018		
	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)
	R'000	R'000	R'000	R'000	R'000	R'000
Rates and General Services						
Executive and Council	7,747	29,916	(22,169)	4,074	17,884	(13,810)
Finance and Administration	523,415	67,769	455,646	474,250	85,588	388,662
Community and Social Services	16,034	86,336	(70,302)	12,092	69,721	(57,629)
Sport and Recreation	29,385	146,441	(117,056)	3,289	121,577	(118,288)
Public Safety	4,099	67,835	(63,736)	810	58,362	(57,552)
Housing	4,789	18,216	(13,427)	326	16,331	(16,005)
Environmental Protection	165	8,925	(8,760)	-	7,846	(7,846)
Health			-	-	-	-
Planning and Development	19,654	87,689	(68,035)	16,323	68,283	(51,960)
Internal Audit	31	(331)	362	-	(177)	177
Road Transport	37,372	299,842	(262,470)	12,417	247,872	(235,455)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	94	27,835	(27,741)	-	24,555	(24,555)
Other	121	6,112	(5,991)	1	5,197	(5,196)
Total Rates and General Services	642,906	846,585	(203,679)	523,582	723,039	(199,457)
Airport	697	807	(110)	384	740	(356)
Trading Services						
Electricity	1,406,107	1,188,000	218,107	1,192,224	1,088,318	103,906
Water	479,543	482,854	(3,311)	451,285	438,272	13,013
Clarified Water	21,564	16,756	4,808	20,418	20,393	25
Sewerage	258,104	194,233	63,871	218,258	181,070	37,188
Refuse Removal	157,976	149,016	8,960	148,079	111,464	36,615
Total Trading Services	2,323,294	2,030,859	292,435	2,030,264	1,839,517	190,747
Total Service Category	2,966,897	2,878,251	88,646	2,554,230	2,563,296	(9,066)

The table above sets out the surplus and deficit for each service category. It is important to note that although the trading services namely Electricity, Water, Clarified Water, Sewerage and Refuse Removal are expected to be profitable **only Electricity, Sewerage and Refuse services are yielding surpluses. Water is yielding a profit based on inflated drought tariffs.**

As part of Council's Revenue Enhancement Policy approved in July 2013, a considerable effort needs to be made to improve the surplus for the remaining trading services by reducing expenditure and increasing revenue. For Rates, the primary solution is to reduce expenditures in specific areas that are Rates dependant.

From a sustainability perspective, it is of particular concern that all functions funded by Rates and General Income are not breaking even. **The dependency on Electricity Revenue alone is of great risk. Firstly, it is more susceptible to economic fluctuations compared to Rates income and secondly, Council needs to keep Electricity Tariffs for business at competitive prices to stimulate economic development. Keeping the Municipality afloat through Electricity alone is a risk to financial sustainability.**

3.9 Debtors Age Analysis

➤ Debtors age analysis by category

DEBTORS AGE ANALYSIS BY CATEGORY	0-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 90 DAYS	TOTAL
Government	7,815,602	209,923	161,170	7,755,680	15,942,375
Business	194,596,284	27,448,695	1,743,005	52,147,276	275,935,260
Households	56,082,028	5,527,718	5,602,680	117,129,789	184,342,215
Other	1,315,820	696,350	435,646	8,999,777	11,447,593
Total	259,809,734	33,882,686	7,942,501	186,032,522	487,667,443
%	53.28%	6.95%	1.63%	38.15%	

FINANCIAL REPORTING ON INCOME / DEBT

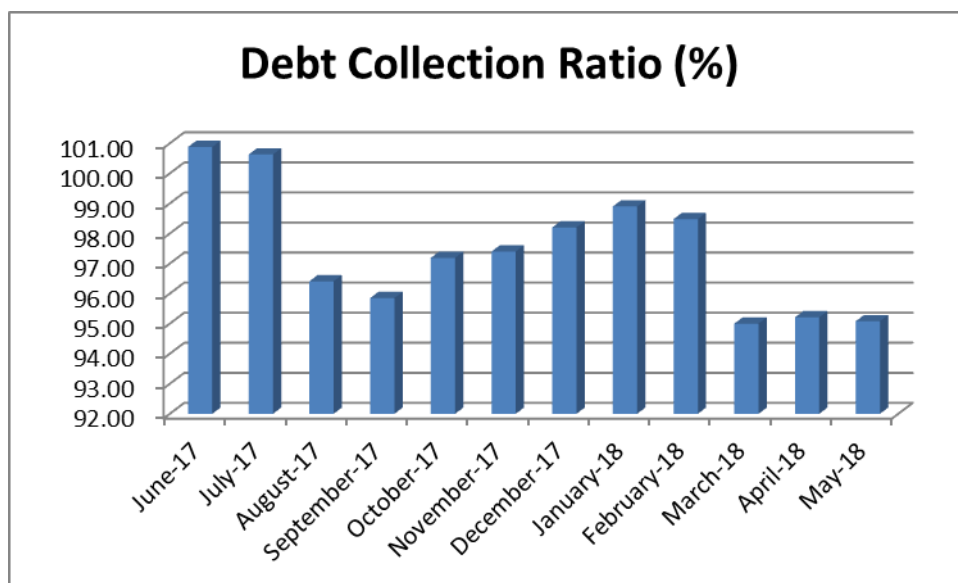
Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform Treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National Treasury determined the formulas for every financial ratio in terms of Circular 71. These formulas will, therefore, be used in the reporting.

➤ Debt Collection Rate

The Ratio indicates the collection rate, i.e. level of payments. It measures increases or decreases in Debtors relative to annual billed revenue. The following formula and norm is included in the circular:

<i>Formula (As per circular 71)</i>	<i>Norm</i>
Gross Debtors Opening Balance + Billed Revenue – Gross Debtors Closing Balance - Bad Debts Written Off) / Billed Revenue x 100	The norm is 95%

Month	Debt Collection Ratio (%)
May-18	95.08
April-18	95.21
March-18	95.00
February-18	98.48
January-18	98.90
December-17	98.20
November-17	97.40
October-17	97.19
September-17	95.85
August-17	96.41
July-17	100.63
June-17	100.88



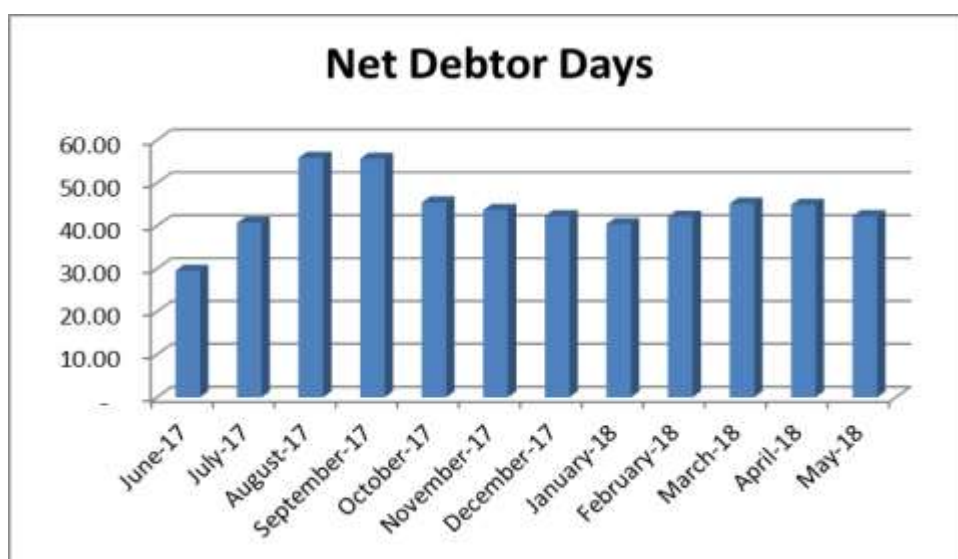
➤ **Net Debtors Days**

This ratio reflects the collection period. Net Debtor Days refer to the average number of days required for a Municipality or Municipal Entity to receive payment from its Consumers for bills/invoices issued to them for services.

The Ratio excludes balances for Debtors, which the Municipality or Municipal Entity has assessed as potentially irrecoverable, and is also a good indication of the effectiveness of Credit Control procedures within the Municipality as well as the extent to which the Municipality has provided for doubtful debts.

Formula (As per circular 71)	Norm
$((\text{Gross Debtors} - \text{Bad Debt Provision}) / \text{Billed Revenue}) \times 365$	The norm is 30 Days

Month	Net Debtor Days
May-18	42.30
April-18	44.89
March-18	45.17
February-18	42.17
January-18	40.40
December-17	42.28
November-17	43.70
October-17	45.45
September-17	55.66
August-17	55.90
July-17	40.70
June-17	29.52

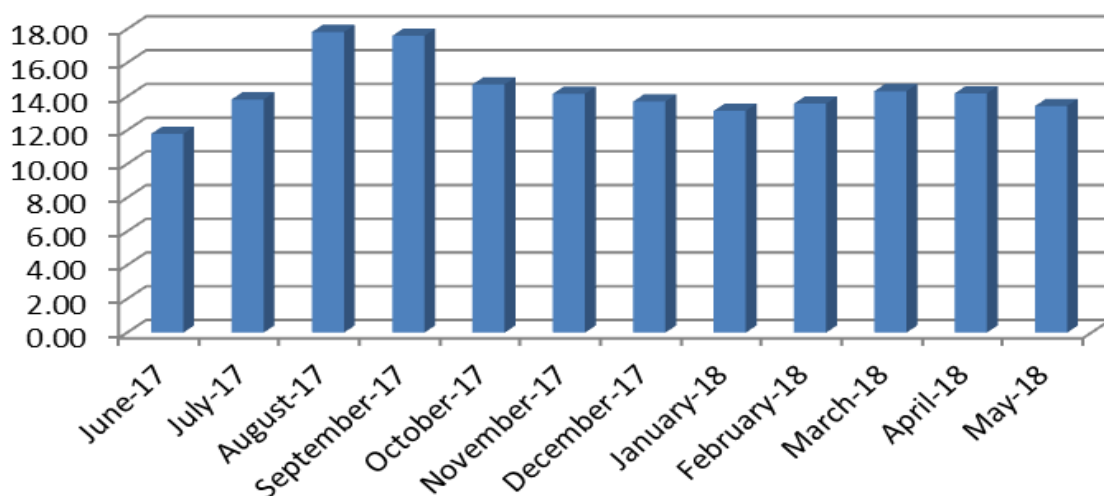


Debtor's Turnover Rate

The norm is to be below 20%.

Month	Debtors Turnover Rate (%)
May-18	13.44
April-18	14.19
March-18	14.32
February-18	13.58
January-18	13.15
December-17	13.71
November-17	14.17
October-17	14.72
September-17	17.60
August-17	17.83
July-17	13.83
June-17	11.79

Debtors Turnover Rate (%)



Top Ten Business Debts

Debtor No	Name	91 Days +	Total
1854904	BASFOUR 3721 (PTY) LTD	22 377 589.88	22 377 589.88
2289941	PANDA PETROLEUMS	4 978 741.13	4 995 269.40
1610626	TISAND (PTY) LTD	4 604 934.39	4 713 612.10
1929003	ZOTEC DEVELOPMENTPTY LTD	3 192 360.05	3 192 360.05
416383	RIVER ROCK INVEST (PTY) LTD	2 175 833.28	2 416 532.90
2247701	BEST CUT MEAT (PTY) LTD	1 724 367.61	2 646 422.63
392020	RIVER ROCK INVEST (PTY) LTD	1 169 787.16	1 966 808.66
2368872	CADRE PROPERTIES PTY LTD	556 294.75	687 294.17
1940649	SHIFTING SANDS PTY LTD	543 548.78	637 263.49
1317138	UTHUNGULU DISTRICT MUNICIPALITY	520 222.21	657 987.91
		41 843 679.24	44 291 141.19

MATTERS BEING HANDLED BY THE FINANCE DEPARTMENT

1. BASFOUR 3721 (PTY) LTD

The administration around this legal process is managed by the Finance Department. Basfour 3721 (Pty) Ltd / Indlovu Dev Trust Trustees is the account for the commission in respect of the 40% on sales above the agreed threshold in respect of the Golf Estate. The developer disputed the account. The dispute is of a contractual nature. The account was handed over to Council's attorneys. Summons was issued and the case was defended.

The setting down of the court date by the Registrar of the High Court for the claim is still awaited.

Update May 2018

There is no further progress as the legal process is continuing.

2. TISAND (PTY) LTD

This account for Tisand (Pty) Ltd is in respect of the water surcharge being levied against the debtor. The matter is under dispute.

Council obtained advice from its attorneys. The advice is currently being studied and will be reported on in due course.

Update May 2018

There is no further progress to report.

3. BEST CUT MEAT (PTY) LTD

The account relates to an electricity and water account for the Best Cut factory in Empangeni. The debtor advised that the full account will be paid as a transaction is pending that will enable them to do so. The payment arrangement was concluded and substantial first payment was received.

The debtor did not honour the payment arrangement and the electricity to the factory was disconnected. The account was also handed over to Council's attorneys for further collection. There is a guarantee noted on the account and the guarantee was also called up.

It bears noting that the electricity is still off. The legal process has now been placed on hold as the company went into Business Rescue. Council's debt remains secured against the property and will be paid in due course.

Update May 2018

The Business Rescue Practitioner is still busy with the assessment of the company and the debts.

4. SHIFTING SANDS (PTY) LTD

The account is in respect of services to a business park in Empangeni.

The charges were charges related to the previous owner and there was a large amount corrected once off on the account.

A payment arrangement to settle the account in instalments was made.

Update May 2018

The debtor is honouring the arrangement and paying in instalments.

5. ZOTEC DEVELOPMENT (PTY) LTD

Zotech Development (Pty) Ltd refers to an account for contribution charges after the development of the Old Mill Estate in Empangeni.

The developer disputed the charges. The matter is set down for Arbitration.

Legal Services advised that the matter was referred to arbitration. Upon hearing the matter, it became clear that Council did not have in its possession information that was required to substantiate the total amount claimed because employees that were dealing with this agreement had left the employ of the Council. The Arbitrator, Mr Crampton, acknowledged that there were amounts that were due to Council in respect of contributions. He concluded with an order that Zotech should pay Council an amount of R820 000,00. This amount was paid into Council's account when the arbitration was finalised in 2016.

Update May 2018

The balance on the account must be reversed by Finance Department. Reversal is still outstanding.

6. PANDA PETROLEUMS

This debt is in respect of rental of town land in respect of the proposed truck stop in Alton. The debtor's failure to adhere to the agreement was been reported to the DMM: City Development, Property Division to give the debtor notice in terms of the agreement.

The debtor's account was handed over to Council's attorneys for collection but the file was pended under request from the legal section who advised that they will be dealing with the matter.

Legal Services (Litigation Sub-section) advised that it is their view that collection proceedings should proceed.

It was confirmed that the agreement between Council and Panda Petroleum was terminated on 12 October 2017 (DMS 1234550). Subsequent to the termination, Panda Petroleum requested Council to consider amendment of the lease agreement. This request was considered to be out of time.

Update May 2018

The legal collection process is ongoing.

7. CADRE PROPERTIES

This debt is in respect of rates for a property in the newly incorporated area of Ntambanana. The debtor had to be traced due to lack of debtor information available. Officials are currently in discussion with the debtor to arrange payment.

Update May 2018

The discussions are proceeding but the debtor has been placed on terms and if not paid, a legal process will be implemented to collect the debt.

MATTERS OUTSTANDING FROM CORPORATE SERVICES DEPARTMENT – LEGAL SERVICES AND CITY DEVELOPMENT

1. RIVER ROCK INVESTMENTS (PTY) LTD

The two (2) accounts for River Rock Investments accounts relates to:

- an account for rates that are levied in respect of the Caravan Park while the contract provides that the rental includes the rates.
- An account for rental in respect of the area being used by Imvubu Lodge. They are paying a portion on the rental and have declared a dispute in terms of the provisions of the contract several years back and requested that the matter referred for arbitration. River Rock are paying their monthly charges, excluding the disputed charge.

Legal Services advised that on 9 January 2018, River Rock Investments served the municipality with a summons wherein they are disputing that the lease expired on 31 May 2017 and the lease is on a month-to-month period until such time that the lease is allocated to another party. The contract made provision that the contract must be renewed at least 12 calendar months prior to the termination date and River Rock failed to exercise that option.

Update May 2017

There is no progress to report.

2. KING CETSHWAYO DISTRICT MUNICIPALITY

The charges relate to a sundry charge levied against one of the accounts of the accounts of the King Cetshwayo District Municipality.

It relates to damage caused to the fibre optic cable at the Cemetery. King Cetshwayo District Municipality's officials indicated in correspondence that there has been some agreement with the contractor and Council.

Legal services section advised that they are dealing with the matter. A meeting was held with KCDM representatives and the Contractor to discuss the issue and to find a solution. At the meeting, the contractor disputed certain items that Council is claiming as unnecessary and request that further proof be provided by Council's contractor who conducted the repair work. Further details of clarity have been requested from Council's contractor.

Update May 2018

The matter is still ongoing.

Government Debt

The top ten (10) Government debtors are as follows:

Government Departments - Summary of ALL Debt									
Government Department	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Ye	Over 1 Year	Total
National	2608525	22904	14914	7413	8377	14692	1171336	814162	4662322
Provincial	5629787	258722	382469	210430	203725	-27490	3820897	3023912	13502451
Totals	8 238 312	281 626	397 383	217 843	212 102	-12 798	4 992 233	3 838 073	18 164 774
National Departments	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Public Works	2 597 746	16 571	8 581	1 080	2 044	8 359	628 394	727 879	3 990 655
Rural Development & land Reform	10 779	6 333	6 333	6 333	6 333	6 333	542 942	86 283	671 668
Provincial Departments	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Public Works	148697	111260	79604	63273	35992	40092	2054973	1421345	3955235
Education	1411924	59884	27749	87531	25872	-198510	1052067	825364	3291881
Human Settlement	51665	31458	28461	22509	12927	8802	116547	676847	949217
Department of Transport	159555	28421	0	0	0	0	0	0	187977
Department of Health	3842247	23215	230156	20634	112452	105528	571056	90725	4996013
COGTA	9143	4413	16397	16447	16481	16598	26254	9630	115362
Department of Social Welfare	-1031	0	0	0	0	0	0	0	-1031
Department of Agriculture	7587	72	103	36	0	0	0	0	7798
SANRAL	0	0	0	0	0	0	0	0	0
Other Organs of State	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Transnet	3132222	184773	182162	177136	133545	123700	716008	166970	4816517
ESKOM	448619	38123	41036	31363	34690	17401	10600	25835	647667
Ingonyama Trust Board	1111	376	376	-2721	376	226	742558	2999428	3741730
Telkom	164776	0	0	0	0	0	0	0	164776
Foskor	38136286	16810103	0	0	0	0	0	0	54946390
SA Post Office	13528	4990	3974	2603	0	0	0	0	25095
Richards Bay IDZ	1049312.45	0	0	0	0	0	0	0	1 049 312

NOTES:

OFFICIAL FINAL VERSION

RPT 164719
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Comments Regarding Government Debt

A special workshop on Government Debt was held at Council offices, facilitated by Provincial Treasury. A special programme is in place with the objective to provide a final resolve to all government debt. The results of the programme will become clearer during this financial year. The co-operation between the different government departments are good and positive results can be expected. The majority of the government accounts in respect of rates for the 2017/2018 year have now been paid.

Update May 2018

The process is ongoing.

8 Employee Debt / Councillor Debt

At a previous Financial Services Portfolio Committee meeting, Councillors requested that Official's and Councillor's debt be submitted to Council.

Employee debt amounts to R92 229,25 as per **Annexure AB - DMS 1279914**.

Councillor's debt amounts to R17 680,36 as per **Annexure AC - DMS 1279914**.

9. EXCEPTION REPORTING ON OPERATING EXPENSES - FOR ENTIRE MUNICIPALITY

The Chief Financial Officer will highlight the important observations on the operating expenditure in this Section, where after Departments will provide specific comment on their own Sections.

It is very important for Council and the Administration to understand that although the liquidity situation is improving and there is a surplus on the current figures, expenditure has to take place in accordance with the approved budget. **If not, the objective of attempting to create internal reserves for future Capital Expenditure from accumulated cash reserves is not going to materialise.**

9.1 Employee related costs

The total employee related expenditure including overtime is within budgetary limits. A concerted effort has been made by the Municipal Manager and the Deputy Municipal Managers to reduce overtime expenditure.

9.1.1 Employee Related Costs – Overtime

Below is a table indicating overtime expenditure at the request of Council, which allows for this expenditure to be monitored and managed on a monthly basis:

EXPENDITURE PER CATEGORY	PROPOSED ADJUSTED BUDGET 2017/2018	PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA PROPOSED ADJUSTED BUDGET SPENT
		R	R	R	%
Overtime - Non-structured	24,520,600	22,477,217	23,708,578	(1,231,361)	105%
Overtime - Structured	15,569,200	14,271,767	14,801,153	(529,386)	104%
Shift Additional Remuneration	2,414,400	2,213,200	2,568,965	(355,765)	116%
TOTAL	42,504,200	38,962,183	41,078,696	(2,116,513)	105%

The table below represents the expenditure incurred on overtime for each department for the month of May 2018. The relevant departments have supplied the comments for the over-expenditure incurred on overtime:

DEPARTMENT	PROPOSED ADJUSTED BUDGET 2017/2018	PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA PROPOSED ADJUSTED BUDGET SPENT
	R	R	R	R	%
Community Services	20,150,800	18,471,567	21,189,727	(2,718,160)	115%
Corporate Services	664,600	609,217	642,977	(33,760)	106%
Financial Services	159,600	146,300	136,375	9,925	93%
Infrastructure and Technical Services	21,509,500	19,717,042	19,104,948	612,094	97%
Office of the Municipal Manager	19,700	18,058	4,670	13,388	0%
Total	42,504,200	38,962,183	41,078,697	(2,116,514)	105%

Detailed explanations that have been provided by the departments on the over-expenditure reflected in the table above have been included below (5. Exception Reporting - Departmental).

In terms of Council Resolution 10542 dated 1 December 2015, Council resolved that:

“2. the overtime paid as compensation for officials that were required to perform overtime work be condoned by Council.”

During the period May 2018 the employees in the following functions worked overtime of more than 10 hours per week which is the maximum that may be allowed in terms of Council's revised overtime policy **(DMS 854249)**.

The following table sets out the applicable information:

EMP NO	FUNCTION	FUNCTION DESCRIPTION	SALARY SCALE	OCCUPATION	HOURLY RATE	OVERTIME AMOUNT	1.5 OVERTIME - ACTUAL HOURS WORKED	2.0 OVERTIME - ACTUAL HOURS WORKED	TOTAL HRS	MAXIMUM HRS ALLOWED PER MONTH	DIFFERENCE	NOTES
2005017	FX015001002003	Sewerage - Sewerage Network	11	SUPERINTENDENT	155.40	17 094.00	20.00	40.00	60.00	50.00	10.00	a
2006060	FX002001002001	Street Lighting and Signal Systems: Street Lighting	6	STREET LIGHT ATTENDANT	90.27	8 620.97	37.00	20.00	57.00	50.00	7.00	b
49460	FX015001002003	Sewerage - Sewerage Network	5	DRIVER/OPERATOR	85.92	7 904.64	40.00	16.00	56.00	50.00	6.00	c
2007120	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	55.09	5 068.48	40.00	16.00	56.00	50.00	6.00	d
2007143	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	55.09	5 068.48	40.00	16.00	56.00	50.00	6.00	e
43059	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	55.09	5 261.24	29.00	26.00	55.00	50.00	5.00	f
2007053	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	55.09	5 151.08	33.00	22.00	55.00	50.00	5.00	g
NOTES:												
a	Employee 2005017 worked 3 hrs x 1 Sunday + 5 hrs x 1 Sunday + 6 hrs x 1 Sunday + 4 hrs x 1 Public Holiday + 5 hrs x 1 Public Holiday + 7 hrs x 1 Public Holiday = 30 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 2 Sundays + 1 hr x 2 Sundays + 2hrs x 1 Sunday = 10 hours plus 20 hours at 1.5 = 60 hours paid BUT only 40 hours worked											
b	Employee 2006060 worked 5 hrs x 1 Public Holiday + 1 hr x 1 Public Holiday + 4 hrs x 2 Sundays = 14 hrs but Sunday times rounded up to 4 or 8 hrs = 3 hours x 2 Public Holidays = 6 hrs and 37 hours at 1.5 = 57 hours paid BUT only 50 hours worked											
c	Employee 49460 worked 6 hrs x 1 Public Holiday + 2 hrs x 2 Sundays = 10 hours but Sunday times rounded up to 4 or 8 hrs = 2 hours x 3 Sundays = 6 hours and 40 hrs at 1.5 = 56 hours paid BUT only 50 hours worked											
d	Employee 2007120 worked 6 hrs x 1 Public Holiday + 2 hrs x 2 Sundays = 10 hours but Sunday times rounded up to 4 or 8 hrs = 2 hours x 3 Sundays = 6 hours and 40 hrs at 1.5 = 56 hours paid BUT only 50 hours worked											
e	Employee 2007143 worked 6 hrs x 1 Public Holiday + 2 hrs x 2 Sundays = 10 hours but Sunday times rounded up to 4 or 8 hrs = 2 hours x 3 Sundays = 6 hours and 40 hrs at 1.5 = 56 hours paid BUT only 50 hours worked											
f	Employee 43059 worked 6 hrs x 1 Public Holiday + 10 hrs x 1 Public Holiday + 5 hrs x 1 Sundays = 21 hours but Sunday times rounded up to 4 or 8 hrs = 2 hrs x 1 Sunday + 3 hrs x 1 Sunday = 5 hours and 29 hrs at 1.5 = 55 hours paid BUT only 50 hours worked											
g	Employee 2007053 worked 5 hrs x 1 Sunday + 10 hrs x 1 Sunday + 2 hrs x 1 Public Holiday = 17 hours but Sunday times rounded up to 4 or 8 hrs = 3 hrs x 1 Sunday + 2 hrs x 1 Sunday = 5 hours and 33 hrs at 1.5 = 55 hours paid BUT only 50 hours worked											

9.2 Volume of Transfers

Type of Transfer of Funds	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Total Number of Transfers
Capital	0	13	11	9	11	32	34	4	32	30	54	230
Operating	4	38	99	40	158	45	12	21	148	31	99	695
Total	4	51	110	49	169	77	46	25	180	61	153	925

Department	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Total Value of Transfers
City Development	-	2,000	-	369,900	47,600	232,300	44,500	3,250,000	19,879,200	1,023,600	251,000	25,100,100
Community Services - Health and Public Safety	-	27,000	1,611,000	970,300	990,900	2,168,400	1,821,000	227,000	2,649,800	3,937,100	15,142,900	29,545,400
Corporate Services	61,000	785,500	12,864,700	909,000	1,215,200	26,625,700	1,826,700	33,300	4,103,900	649,700	9,825,300	58,900,000
Financial Services	15,000	24,100	1,427,000	4,500	133,600	2,721,000	-	11,600	271,300	993,300	338,800	5,940,200
ITS - Electrical Supply Services	-	8,000	26,347,100	13,933,500	12,784,500	14,596,300	2,000,000	-	220,000	4,270,500	1,464,200	75,624,100
ITS - Engineering Support Services	-	426,900	1,583,200	800	180,000	615,900	-	360,000	474,000	29,400	1,302,600	4,972,800
ITS - Roads and Stormwater	14,000	1,947,400	10,059,500	560,000	4,760,700	3,932,300	-	-	2,208,700	8,700,800	-	32,183,400
ITS - Water and Sanitation Services	-	18,700	25,500,800	231,600	42,901,400	12,994,000	829,000	9,200	10,218,000	995,900	1,248,400	94,947,000
Office of The Municipal Manager	-	-	1,671,500	15,000	480,700	52,500	47,000	4,000	217,800	70,000	578,000	3,136,500
Total	90,000	3,239,600	81,064,800	16,994,600	63,494,600	63,938,400	6,568,200	3,895,100	40,242,700	20,670,300	30,151,200	330,349,500

The table indicated above shows the Virements received by Financial Services in May 2018 from the various departments.

9.3 Exception reporting - Specific Line items

Security Services - The table below indicates the pro-rata budget and actual expenditure for the line item. It is clearly evident that the expenditure is increasing at an alarming rate over the years:

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	
LINE ITEM	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	ACTUAL YTD	PRO-RATA ADJUSTED BUDGET MAY 2018	ACTUAL YTD 31/05/2018
	R	R	R	R	R	R	R
SAFEGUARD AND SECURITY	20,908,176	24,679,748	30,950,032	37,924,078	46,469,620	41,624,275	42,880,122

The spending patterns per department are as follows:

DEPARTMENT	ADJUSTED BUDGET 2016/2017	PRO-RATA ADJUSTED BUDGET (YTD)	MAY ACTUAL (YTD)	% OF ADJUSTED BUDGET OVERSPENT
	R	R	R	R
CITY DEVELOPMENT	2,062,800	1,890,900	1,889,604	100%
COMMUNITY SERVICES	19,219,700	17,618,058	16,784,741	95%
CORPORATE SERVICES	5,961,300	5,464,525	7,100,470	130%
FINANCIAL SERVICES	2,544,400	2,332,367	2,572,728	110%
ENERGY AND ELECTRICAL SOURCES	3,157,800	2,894,650	3,768,281	130%
INFRASTRUCTURE SERVICES	12,462,300	11,423,775	10,764,298	94%
TOTAL	45,408,300	41,624,275	42,880,122	103%

It is apparent from the information contained in the table above that the 2017/18 Adjusted Adopted Budget will not be sufficient. The Departments concerned need to investigate the possible reduction of expenditure. The security services costs versus adjusted budget is going to be overspent by approximately R10 million.

The Deputy Municipal Manager: Community Services submitted a report to Council on the 25 April 2018. It is suggested that feedback be provided on departments have made in the implementation of resolution number 4 of RPT 163634:

“the following cost cutting measures as proposed on page 4 of 6, of this report be implemented:

PERIOD	ACTIVITY	RESPONSIBLE DEPARTMENT
4.1 Short-Term		
4.1.1	Negotiation of rates to align to the PSIRA rates, including overhead costs.	Community Services
4.1.2	Analysis of contracts originally signed with local reaction companies against fees currently charged by Makheda and CRG.	Community Services (with input from Legal Services).
4.1.3	Departments to review their need for security.	All Departments
4.1.4	Invoices to be accompanied by relevant attendance registers	Community Services
4.1.5	Physical security barriers for outlying water, sanitation and electricity installations. Refer to DMS 1243165 .	Infrastructure Services (with input from Community Services).
4.2 Medium-Term		
4.2.1	Compilation of procedure for allocation and withdrawal of guards.	Community Services
4.2.2	Separation of various methods of security, alarm, reaction and guarding. Costs will then be incurred for one method.	Community Services (with input from all departments).
4.2.3	Introduction of complementary patrol services for water, sanitation and electricity installations.	Community Services (with input from Infrastructure Services).
4.3 Long-Term		
4.3.1	Compilation of future tender specification strictly in line with gazetted PSIRA rates.	Supply Chain Management (with input from Community Services).

“

10. EXCEPTION REPORTING - DEPARTMENTAL

10.1 Services, Health and Public Safety and Recreational and Environmental Services

10.2 Overtime

COMMUNITY SERVICES, HEALTH AND PUBLIC SAFETY											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
COMMUNITY SERVICES AND HEALTH											
FX011001005	Fire Fighting and Protection	572,300	-	1,789,400	2,361,700	2,164,892	652,388	-	1,882,877	2,535,265	(370,373)
FX012001001	Police Forces, Traffic and Street Parking Co	1,267,500	2,393,400	94,300	3,755,200	3,442,267	2,298,010	1,196,672	97,332	3,592,014	(149,747)
FX005001012	Security Services	272,900	-	261,900	534,800	490,233	233,728	-	298,826	532,554	(42,321)
FX012001005	Taxi Ranks	115,500	-	-	115,500	105,875	131,380	-	-	131,380	(25,505)
FX014001003	Solid Waste Removal	41,700	6,388,600	-	6,430,300	5,894,442	15,360	7,125,115	-	7,140,475	(1,246,033)
FX014001004	Street Cleansing	-	4,654,700	-	4,654,700	4,266,808	-	4,683,592	-	4,683,592	(416,784)
FX015001001	Public Toilets	196,600	-	-	196,600	180,217	206,332	-	-	206,332	(26,115)
Total		2,466,500	13,436,700	2,145,600	18,048,800	16,544,733	3,537,198	13,005,379	2,279,035	18,821,612	(2,276,879)

☐ Fire Fighting and Protection

The over-expenditure incurred by the Fire Brigade was due personnel that called in on overtime to do the shift cover as the Fire Brigade is short of staff.

❑ **Police Forces, Traffic and Street Parking and Security Services**

No comments provided by the user department at the time of printing this report.

❑ **Solid Waste Removal, Street Cleansing and Public Toilets**

Month had five weekends and holidays and this contributes to over-expenditure, furthermore with businesses that pay for seven day services means that we cannot just stop the service during weekends and this is part of revenue. Section cannot further decrease staff as this will definitely impact negatively on service delivery, therefore this should be addressed during budgeting process. It should be noted that expenditure on overtime has never been increased for the last 5 years, even though service demands and increase.

COMMUNITY SERVICES - ENVIRONMENTAL AND RECREATION SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
COMMUNITY SERVICES RECREATION											
FX001001003	Cemeteries	664,000	151,000	-	815,000	747,083	689,086	75,490	-	764,576	(17,493)
FX013002004001	Sport Development and Sportfields	-	210,300	-	210,300	192,775	-	221,451	-	221,451	(28,676)
FX013001001	Beaches and Jetties	-	159,100	-	159,100	145,842	-	202,032	-	202,032	(56,190)
FX013002003003	Recreational Facilities - Swimming Pools	50,000	435,100	-	485,100	444,675	164,455	546,868	-	711,323	(266,648)
FX013001002	Community Parks (including Nurseries)	-	194,800	-	194,800	178,567	41,953	269,325	-	311,278	(132,711)
Total		714,000	1,150,300	-	1,864,300	1,708,942	895,494	1,315,166	-	2,210,660	(501,718)

□ **Cemeteries**

Burials fluctuate from month to month. Due to the high volume of internments over weekends and public holidays it is necessary for the staff to perform such duties. The focus has lately changed for internments from weekdays to weekends.

□ **Sport Development and Sportsfield**

Sport and Recreation over spent on overtime in the previous month due to public holidays whereby officials could not perform all their duties during working hours and had to work on public holidays and weekends. Officials also had to work at the Richards Bay FC home matches. It is the PSL requirement that officials be on site for the duration of the match.

□ **Beaches and Jetties**

Payments for overtime were made to the lifeguards for the 2017/18 festive season. The beaches were extremely busy and the lifeguards requested to be paid overtime for public holidays and Sundays. There was expertise required in order to prevent any mishaps occurring at Alkantstrand beach and surrounding beach area. This overtime payment leads to exhausting the funds in the overtime vote which a continuous over expenditure. Overtime was only paid for the December and January, to the lifeguards only.

□ **Swimming Pools**

The facilities are open 7 days a week and staff are needed to work weekends and public holidays for the general cleaning of the swimming pool as well as the area. The demand is increasing by the public to utilise the pools during weekends the public holidays. Also swimming galas are only held during weekends and this requires more staff to clean up as well as place lanes in the pool. All of this leads into over expenditure on overtime. **NB:** The swimming pools are closed from 1 May 2018.

□ **Community Parks (Including Nurseries)**

It be noted that the over-expenditure on overtime has been accumulating over the period of time during the current financial year. No overtime was worked in **May 2018** or the period under-consideration for the purpose of financial reporting. The incurred cost was a result of growing season for grass cutting functions and overtime had to be worked during December 2017 and January 2018. This Region also experienced severe adverse weather conditions **(Gale Force Winds) in September, October 2017 and February 2018** that resulted in the number of trees being blown over or uprooted and blocking the flow traffic. As result long hours had to be worked during the week and on weekends to overcome the workload, hence unscheduled overtime had to be organised during this period to improve or clear vegetation debris as per our operational requirements.

10.3 Corporate Services

10.3.1 Overtime

CORPORATE SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
ADMINISTRATION											
FX005001001	Administrative and Corporate Support	280,000	46,700	174,900	501,600	459,800	314,817	23,314	189,021	527,152	(67,352)
FX005001007	Information Technology	-	8,000	-	8,000	7,333	-	8,873	-	8,873	(1,540)
Total		280,000	54,700	174,900	509,600	467,133	314,817	32,187	189,021	536,025	(68,892)

□ Administrative and Corporate Support

Over expenditure on overtime occurred due to overtime worked by staff delivering agendas after hours.

□ Information Technology

Due to the SAP ERP project, urgent renovation to ICT office space was required to accommodate the SAP ERP consultants that were not catered for in the 2017/18 Adjustment Budget. It is essential that at least one ICT employee is present when renovations are undertaken to protect and secure various ICT equipment and high risk areas such as the Server Room, hence the need for ICT employee overtime. The contractor commenced work on 12 January 2018 (between 16:00 and 06:00) and reverted to normal business hours on 18 May 2018.

10.4 Energy and Electricity Services

10.4.1 Overtime

INFRASTRUCTURE AND TECHNICAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
ENERGY SOURCES											
FX002001001001	Marketing and Customer relations	58,100	-	-	58,100	53,258	131,169	-	-	131,169	(77,911)

□ Electricity Distribution and Street Lighting

There was a total of 323 call outs received for the month of April 2018, of which 316 call outs were mainly on meter faults and no power calls, which affected residential customers. There were seven (7) Medium Voltage failures due to cable faults, overhead lines, breaker and bushing failures which took an average of three hours to restore power, including travelling time and depending on the complexity and nature of the fault.

10.5 Infrastructure

10.5.1 Overtime

INFRASTRUCTURE AND TECHNICAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
ENGINEERING SUPPORT SERVICES											
FX001001005001	Building Maintenance	35,600	5,100	-	40,700	37,308	60,931	2,546	-	63,477	(26,169)

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❑ **Building Maintenance**

No comments provided by the user department at the time of printing this report.

INFRASTRUCTURE AND TECHNICAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL MAY 2018 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R		R	R	R	R		R	R
WATER AND SANITATION SERVICES											
FX015001002002	Sewerage - Pumpstations	942,300	61,800	93,900	1,098,000	1,006,500	923,275	65,222	100,908	1,089,405	(82,905)
FX016001002002	Water Distribution - Urban Water	3,132,900	-	-	3,132,900	2,871,825	2,975,743	-	-	2,975,743	(103,918)

❑ **Sewerage - Pumpstation**

Empangeni Group pumps and Reservoirs - Reservoir Readings, Cleaning of screens and inspections. This is a daily task done by Empangeni Plumbers. Our section assists them alternate weekends including public holidays so that their staffs have weekend off. Empangeni Plumbers were assisted with grass cutting at Reservoirs. Arboretum and Alton Macerators - There was a shortage of staff at both Macerators. Staffs are required to work double shifts when staffs are off sick/leave. Standby personnel are called out to purchase food for staff working overtime. There were blockages, overflows and electrical problems. Personnel called out after hours at various pump stations.

❑ **Water Distribution – Urban Water**

Most of our pipes have exceeded their life span they can no longer withstand the Loads or forces that exceed their strength which is external forces such as point loads (e.g. through a sharp rock in the pipe bedding), the weight of the soil above the pipe and external factors such as soil movements which results in an increase in pipeline failures and pipe burst which occurs even after hours. Below, are the other factors which have contributed immensely on over expenditure in overtime for the month of May 2018:

1. **Shortage of water in various areas** - Most of the rural areas are supply by water tankers and most of the water tanker drivers work long hours delivering water to these areas.
2. **Illegal water connections** - Improper connections done by community members to municipality mainline pipes which later results to water leaks and burst pipes.

11. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1279913**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEXURE
Table C1	Monthly Budget Statement Summary	A
Table C2	Monthly Budget Financial Performance (Standard Classification)	B
Table C2C	Monthly Budget Financial Performance (Detail) (Standard Classification)	C
Table C3	Monthly Budget Financial Performance (Revenue and Expenditure by Municipal Vote)	D
Table C3C	Monthly Budget Financial Performance (Detail) (Revenue and Expenditure by Municipal Vote)	E
Table C4	Monthly Budget Financial Performance (Revenue by source and Expenditure by Item)	F
Table C5	Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding	G
Table C5C	Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding	H
Table C6	Monthly Budgeted Financial Position	I
Table C7	Monthly Budgeted Cash Flows	J
Table SC1	Material variance explanations	K
Table SC2	Monthly Performance indicators	L
Table SC3	Aged Debtors	M
Table SC4	Aged Creditors	N
Table SC5	Investment Portfolio	O
Table SC6	Transfers and grant receipts	P
Table SC7(1)	Transfers and grant expenditure	Q
Table SC7(2)	Expenditure Against Approved Rollovers	R
Table SC8	Councillor and Staff Benefits	S
Table SC9	Monthly actuals and revised targets for cash receipts (cash flow)	T
Table SC12	Monthly capital expenditure trend	U
Table SC13a	Monthly capital expenditure on new assets by asset class	V
Table SC13b	Monthly capital expenditure on the renewal of existing assets by asset class	W
Table SC13c	Monthly repairs and maintenance expenditure by asset class	X
Table SC13d	Monthly depreciation by asset class	Y

PART 2 - SUPPORTING DOCUMENTATION

12. DEBTORS ANALYSIS

Refer to supporting table SC3 - Aged Debtors (**Annexure M**) for the month ended 31 May 2018.

13. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 31 May 2018.

14. INVESTMENT PORTFOLIO ANALYSIS

Refer to supporting table SC5 - Investment portfolio (**Annexure O**) for the month ended 31 May 2018.

15. ALLOCATION AND GRANT RECEIPTS AND EXPENDITURE

Refer to supporting table SC6 - Transfers and grant receipts (**Annexure P**) and supporting table SC7 - transfers and grant expenditure (**Annexure Q**) for the month ended 31 May 2018.

16. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 31 May 2018.

17. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 May 2018:

- ❑ Table C5 - Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding (**Annexure G**).
- ❑ Table C5C - Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding (**Annexure H**).
- ❑ Table SC12 - Monthly capital expenditure trend (**Annexure U**).
- ❑ Table SC13a - Monthly capital expenditure on new assets by asset class (**Annexure V**).
- ❑ Table SC13b - Monthly capital expenditure on the renewal of existing assets by asset class (**Annexure W**).
- ❑ Table SC13c - Monthly repairs and maintenance expenditure by asset class (**Annexure X**).
- ❑ Table SC13d - Monthly depreciation by asset class (**Annexure Y**).

18. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **DMS 1283225 (Annexure AD)**.

ENVIRONMENTAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

This has been covered in detail throughout the report.

LEGAL IMPLICATIONS

The monthly financial report is prepared in terms of Section 71 of the Municipal Finance Management Act, 2003 (MFMA), (Act 56 of 2003).

COMMENTS OF THE CHIEF FINANCIAL OFFICER

Refer to the Executive summary contained in this report for comments including the comments on the mSCOA project.

COMMENTS OF THE MUNICIPAL MANAGER

The report is noted by the Office of the Municipal Manager.

RECOMMENDED THAT:

1. the financial position of the uMhlathuze Municipality as at 31 May 2018, as required in terms of Section 71 and Section 66 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) and as set out in the monthly budget statement tables **(DMS 1279913)** be noted; and
2. the comments on the Municipal Standard Chart of Accounts (mSCOA) project status included under point 3.1 of the report, be noted.