

12652
FINANCIAL REPORTING AS AT 31 JULY 2018

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

PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 31 July 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 July or 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 July or 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 July 2018 is included under **Annexures Z and AA (DMS 1293466)**.

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.

TABLE OF CONTENTS

PART 1 - IN-YEAR REPORT	
1.	Financial Report for the month of July 2018
2.	Resolutions
3.	Executive Summary
3.1	Executive Summary – Operating Budget
3.2	Executive Summary – Cash Flow Situation
3.3	Executive Summary – Grants Balances
3.4	Executive Summary – Capital Budget Summary
3.5	Executive Summary – Expenditure per Category
3.6	Executive Summary – Revenue per Category
3.7	Executive Summary – Surplus and Deficit by Service Category
3.8	Executive Summary – Debtors Age Analysis
3.9	Executive Summary – Employee Debt and Councillor Debt
4.	Exception Reporting – General
4.1	Exception Reporting – Employee Related Costs
4.1.1	Exception Reporting – Employee Related Costs - Overtime
4.2	Exception Reporting – Volume of Transfers
4.3	Exception Reporting – Specific Line Items
5.	In-year budget statement tables
PART 2 – SUPPORTING DOCUMENTATION	
6.	Debtors' Analysis
7.	Creditors' Analysis
8.	Investment portfolio analysis
9.	Allocation and grant receipts and expenditure
10.	Councillor allowances and employee benefits
11.	Capital programme performance
12.	Municipal Manager's quality certification

PART 1 – IN-YEAR REPORTING

1. **FINANCIAL REPORT FOR THE MONTH OF JULY 2018**

In terms of the Budget Regulations, Part 1 in-year reporting, the July 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 July 2018, and the performance of the Municipality against its budget is in line with the adopted 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 July 2018 (year to date actual) shows a surplus of R98 million. This is mainly as a result of the higher electricity tariff charged during the winter months as well as the annual rates that is levied for government debtors. This implies that the municipality has been able to raise its budgeted income and has successfully collected 97% of the previous months billing as well. The performance in this area is **Acceptable**.

Capital Budget

Council is in the first quarter of the financial year and capital expenditure is very low at R7,1 million (1,35%). This is based on the Adopted Capital Budget of R525 million. Expenditure is expected to rise as the year progresses. The performance in this area although is not **Acceptable Proportionately, it is expected at this early stage of the new year**. The Project steering Committee is monitoring the capital projects to ensure that any issues are resolved promptly.

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 2,09:1 (455 875/217 826). Therefore, the Municipality has a positive bank balance to defray its expenses. The performance in this area is **Acceptable**.

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 Operating Budget

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

DESCRIPTION	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2018 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Revenue	3,184,097,300	454,170,300	461,124,245	101.53%
Less: Equitable Share received in advance	-	-	(124,611,667)	0.00%
Capital Grants and Subsidies	(129,223,800)	(10,768,650)	-	0.00%
Gains on Disposal of PPE	-	-	(1,086,998)	0.00%
Adopted Revenue Budget	3,054,873,500	443,401,650	335,425,580	75.65%
Expenditure	3,016,496,500	251,374,708	236,639,644	94.14%
Adopted Expenditure Budget	3,016,496,500	251,374,708	236,639,644	94.14%
Surplus/(Deficit)	38,377,000	192,026,942	98,785,936	

3.2 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 2,09:1 (455 875/217 827).

3.3 Grants Balances

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2018	AMOUNT GAZETTED FOR AUGUST 2018	AMOUNT GAZETTED FOR SEPTEMBER 2018	AMOUNT GAZETTED FOR OCTOBER 2018	AMOUNT GAZETTED FOR NOVEMBER 2018	AMOUNT GAZETTED FOR DECEMBER 2018	AMOUNT GAZETTED FOR JANUARY 2019	AMOUNT GAZETTED FOR FEBRUARY 2019	AMOUNT GAZETTED FOR MARCH 2019	AMOUNT GAZETTED FOR APRIL 2019	AMOUNT GAZETTED FOR MAY 2019	AMOUNT GAZETTED FOR JUNE 2019	TOTAL TO BE RECEIVED AS AT 30/06/2019	AMOUNT RECEIVED AS AT 31/07/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/07/2018	% SPENT	COMMENTS
NATIONAL TREASURY																		
Equitable Share	135 940 000		-	-	-	108 752 000	-	-	81 563 000	-	-	-	326 255 000	135 940 000	190 315 000	27 187 916.67	8%	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	30 000 000		-	-	-	45 000 000	-	-	29 604 000	-	-	-	104 604 000	30 000 000	74 604 000	4 636 231	4%	This expenditure is as per claims submitted to COGTA
Financial Management Grant	-	2 650 000	-	-	-	-	-	-	-	-	-	-	2 650 000	-	2 650 000	42 073	2%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Municipal Water Infrastructure Grant-WSIG			-	6 000 000	-	-	-	-	10 000 000	-	-	-	16 000 000	-	16 000 000	-	0%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Extended Public Works Programme		1 298 000	-	-	2 335 000	-	-	1 556 000	-	-	-	-	5 189 000	-	5 189 000	559 316	11%	The grant is for the operational expenditure for EPWP
Infrastructure Skills Development Grant	2 300 000		-	-	-	-	2 700 000	-	-	-	-	-	5 000 000	2 300 000	2 700 000	291 357	6%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Energy Efficiency and Demand Side management Grant	2 000 000		-	2 000 000	-	-	2 000 000	-	-	-	-	-	6 000 000	2 000 000	4 000 000	-	0%	To provide subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency
TOTAL NATIONAL TREASURY GRANTS	170 240 000	3 948 000	-	8 000 000	2 335 000	153 752 000	4 700 000	1 556 000	121 167 000	-	-	-	465 698 000	170 240 000	295 458 000	32 716 893	7%	

NOTES:

OFFICIAL FINAL VERSION

RPT 165182
Page 6 of 26

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	AMOUNT GAZETTED FOR JUNE 2018	TOTAL TO BE RECEIVED AS AT 30/06/2019	AMOUNT RECEIVED AS AT 31/07/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/07/2018	% SPENT	COMMENTS
PROVINCIAL TREASURY																		
Provincialisation of Libraries	-	-	8 275 000	-	-	-	-	-	-	-	-	-	8 275 000	-	8 275 000	1 835 936	22%	Expenditure shown is the total operating cost of the Libraries for the period.
Community Library Services Grant (Cyber cadets)	-	-	1 576 000	-	-	-	-	-	-	-	-	-	1 576 000	-	1 576 000	122 469	8%	Expenditure shown is the total operating cost of the Cybercadets for the period.
Housing Operating Account	-	-	2 213 000	-	-	-	-	-	-	-	-	-	2 213 000	-	2 213 000	985 251	45%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	-	-	192 000	-	-	-	-	-	-	-	-	-	192 000	-	192 000	330 325	172%	Expenditure shown is the total operating cost of the Museum.
Sports and Recreation-Operational	-	-	58 000										58 000	-	58 000	-		Sports and Recreation - Operational
Sports and Recreation-Capital	-	-	7 850 000										7 850 000	-	7 850 000	-	0%	Sports and Recreation - Provincial Allocation for Construction of Fitness Centre at Esikhaleni
TOTAL PROVINCIAL TREASURY GRANTS	-	-	20 164 000	-	-	-	-	-	-	-	-	-	20 164 000	-	20 164 000	3 273 981	16%	
TOTAL GRANTS AND SUBSIDIES	170 240 000	3 948 000	20 164 000	8 000 000	2 335 000	153 752 000	4 700 000	1 556 000	121 167 000	-	-	-	485 862 000	170 240 000	315 622 000	35 990 874	7%	

3.4 Capital Budget Summary

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

FUNCTION	ADOPTED BUDGET 2018/2019	ACTUAL JULY 2018 (YTD)	% OF ADOPTED BUDGET SPENT
	R	R	%
Finance and Administration	102,236,000	-	0.00%
Community and Social Services	54,821,300	333,918	0.61%
Energy Sources	85,472,000	499,931	0.58%
Environmental Protection	200,000	-	0.00%
Planning and Development	3,952,500	124,868	3.16%
Public Safety	559,000	-	0.00%
Road Transport	133,723,200	1,162,414	0.87%
Sport and Recreation	25,600,400	-	0.00%
Waste Management	1,700,000	-	0.00%
Waste Water Management	48,123,200	4,784,579	9.94%
Water	68,773,200	165,100	0.24%
	525,160,800	7,070,810	1.35%

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADOPTED BUDGET 2018/2019	ACTUAL JULY 2018 (YTD)	% OF ADOPTED BUDGET SPENT
	R	R	%
Borrowing	310,000,000	2,104,032	0.68%
Capital Replacement Reserve	85,937,000	182,198	0.21%
MIG	99,373,800	4,784,579	4.81%
Government Grants - National	22,000,000	-	0.00%
Government Grants - Provincial	7,850,000	-	0.00%
TOTAL	525,160,800	7,070,809	1.35%

3.5 **Expenditure per Category**

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

EXPENDITURE BY TYPE	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2018 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Employee related costs	812,123,200	67,676,933	56,959,855	84.16%
Remuneration of Councillors	31,880,800	2,656,733	2,411,655	90.78%
Debt Impairment	26,512,500	2,209,375	500,547	22.66%
Depreciation and asset impairment	376,066,000	31,338,833	31,338,833	100.00%
Finance Charges	67,884,000	5,657,000	5,657,000	100.00%
Bulk Purchases - Electricity	897,363,700	89,295,500	89,295,500	100.00%
Bulk Purchases - Water	103,581,500	8,631,792	9,011,198	104.40%
Other Materials	114,232,700	9,519,392	4,366,169	45.87%
Contracted Services	312,731,000	26,060,917	20,303,319	77.91%
Transfers and grants	12,533,600	1,044,467	4,678,515	447.93%
Other Expenditure	261,587,500	21,798,958	12,117,053	55.59%
TOTAL	3,016,496,500	265,889,900	236,639,644	89.00%

Employee related costs

The Salary and wage collective agreement for the period 1 July 2018 to 30 June 2021 will only be concluded in August 2018. The salary increases and respective back pay will be calculated in September 2018.

Debt impairment

The calculation for the debt impairment provision journal is in progress and will be finalised in August 2018. The expenditure will be correctly reflected in subsequent months.

Bulk Purchases – Electricity

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

Transfers and grants

The following the transfers and grants were paid during the period under review:

	R
Richards Bay Football Club	2 500 000
Soul And Jazz Experience	1 555 000
Madiba Jive	250 000
Disaster Food Packs	5 950
Other special programmes (Youth, religious sector, policy formulation, Operation Sukuma Sakhe)	33 100
Economic Development programmes	260 870
Bursaries (Non-Employee) – children of employees	73 595
Total	4 678 515

37% of the total budget for transfers and grants has already been spent during the first month of year.

3.6 Revenue per Category

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

REVENUE BY SOURCE	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2018 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Rates	474,453,400	77,889,400	77,889,339	100.00%
Service Charges – Electricity revenue	1,579,190,100	170,487,000	170,486,963	100.00%
Service Charges – Water revenue	337,842,300	30,804,000	30,803,944	100.00%
Service Charges – Refuse revenue	80,371,500	6,697,625	8,890,645	132.74%
Service Charges – Sanitation revenue	99,236,300	8,269,692	8,440,778	102.07%
Rental of facilities and equipment	8,422,600	701,883	370,693	52.81%
Interest earned – external investments	56,942,300	4,745,192	1,677,056	35.34%
Interest earned – outstanding debtors	55,700	4,642	10,635	229.12%
Fines	7,135,100	594,592	1,014,288	170.59%
Licences and permits	3,807,500	317,292	279,821	88.19%
Agency services	7,796,500	649,708	474,120	72.97%
Operating Grants and Subsidies	356,638,300	138,658,800	138,658,800	100.00%
Capital Grants and Subsidies	129,223,800	10,768,650	-	0.00%
Gains on Disposal of PPE	-	-	1,086,998	0.00%
Other Revenue	42,981,900	3,581,825	21,040,165	587.41%
TOTAL REVENUE	3,184,097,300	454,170,300	461,124,245	101.53%
Less: Equitable Share received in advance	-	-	(124,611,667)	0.00%
Gains on Disposal of PPE	-	-	(1,086,998)	0.00%
Capital Grants and Subsidies	(129,223,800)	(10,768,650)	-	0.00%
TOTAL OPERATING REVENUE	3,054,873,500	443,401,650	335,425,580	75.65%

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

Rates – Includes annual rates billing from annual rate payers i.e. government accounts.

Service Charges – Electricity Revenue - Electricity revenue is higher in July and August due to high demand tariffs.

Operating Grants and Subsidies – the pro-rata budget used is as per payment schedule provided by National Treasury. Amount of R135 million (40% of the total equitable share) has been received in July 2018.

Other Revenue – is high due to old year electricity adjustments that were passed to Transnet account when correcting it

3.7 Surplus and Deficit by Service Category

SERVICES	ADOPTED BUDGET 2018/2019			ACTUAL AS AT 31 JULY 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	191	21,843	(21,652)	15	(9,379)	9,394
Finance and Administration	549,274	39,114	510,160	81,488	(18,987)	100,475
Community and Social Services	20,302	92,392	(72,090)	246	8,006	(7,760)
Sport and Recreation	20,464	161,009	(140,545)	671	13,994	(13,323)
Public Safety	1,102	71,238	(70,136)	53	5,897	(5,844)
Housing	3,804	17,810	(14,006)	129	1,645	(1,516)
Environmental Protection	1,009	11,050	(10,041)	-	680	(680)
Planning and Development	18,676	91,739	(73,063)	2,095	6,242	(4,147)
Internal Audit	-	44	(44)	-	(378)	378
Road Transport	31,850	280,003	(248,153)	855	27,810	(26,955)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	-	48,469	(48,469)	-	3,859	(3,859)
Other	8,700	5,966	2,734	-	383	(383)
Total Rates and General Services	655,372	840,677	(185,305)	85,552	39,772	45,780
Airport	736	115	621	-	16	(16)
Trading Services						
Electricity	1,596,982	1,292,648	304,334	193,392	125,975	67,417
Water	491,501	462,737	28,764	77,952	38,115	39,837
Clarified Water	27,219	15,216	12,003	1,102	1,691	(589)
Sewerage	275,326	240,597	34,729	67,050	22,614	44,436
Refuse Removal	145,652	164,506	(18,854)	36,076	13,350	22,726
Total Trading Services	2,536,680	2,175,704	360,976	375,572	201,745	173,827
Total Service Category	3,192,788	3,016,496	176,292	461,124	241,533	219,591

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, Water, Sewerage and Refuse services are yielding surpluses. Water is yielding a profit based on inflated drought tariffs and 40% of equitable share received in July 2018.**

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

Taking into cognisance the above mentioned points, a revenue diversification project is at planning stage and the document has been prepared under **DMS 1177516** to enable council to enhance existing revenue streams and to attract investments in the city that will provide revenue growth in the city and lessen the catastrophic risk of high reliance with revenue from electricity service charge.

3.8 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	36,036,002	186,900	128,322	7,124,394	43,475,618
Business	300,607,035	9,379,796	9,207,295	63,351,943	382,546,069
Households	36,903,602	5,533,287	5,213,966	112,299,807	159,950,662
Other	513,407	260,835	356,948	9,996,120	11,127,310
Total	374,060,046	15,360,818	14,906,531	192,772,264	597,099,659
%	62.65%	2.57%	2.50%	32.28%	

FINANCIAL REPORTING ON INCOME / DEBT

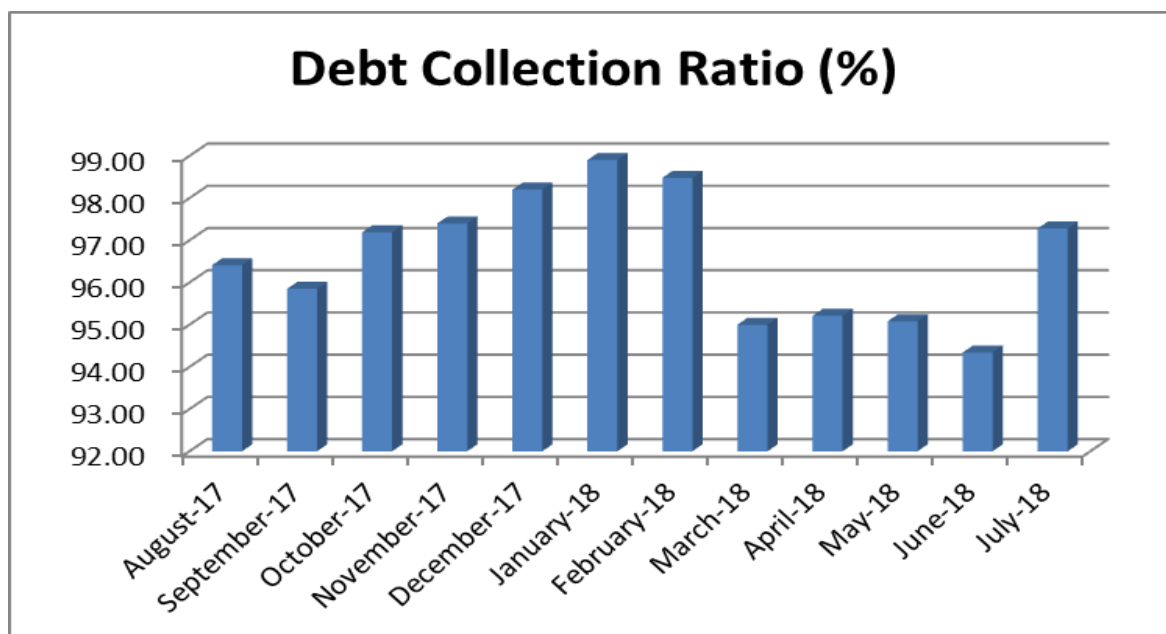
Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform Treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National 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 (%)
July-18	97.28
June-18	94.34
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



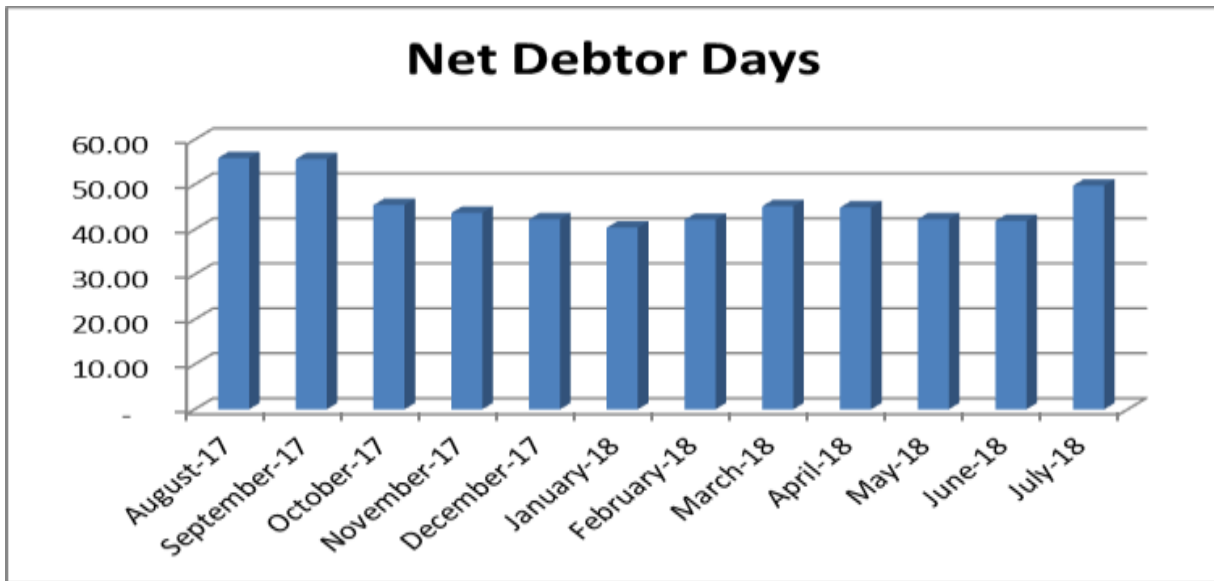
➤ **Net Debtors Days**

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

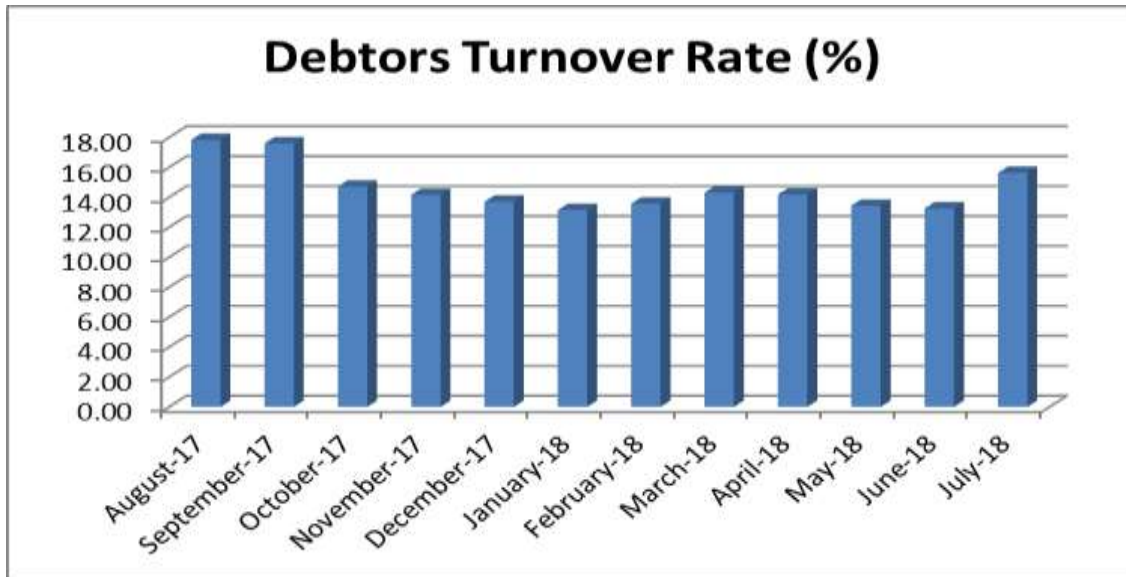
Month	Net Debtor Days
July-18	49.79
June-18	41.92
May-18	42.30
April-18	44.89
March-18	45.17
February-18	42.17
January-18	40.40
December-17	42.28
November-17	43.70
October-17	45.45
September-17	55.66
August-17	55.90



Debtor's Turnover Rate

The norm is to be below 20%.

Month	Debtors Turnover Rate (%)
July-18	15.63
June-18	13.26
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



Top Ten Business Debts

TOP 10 DEBTORS			
Debtor No	Name	90 days +	Grand Total
1854904	BASFOUR 3721 (PTY) LTD	22,377,590	22,377,590
568393	FOSKOR (PTY) LTD	8,084,934	18,474,280
2289941	PANDA PETROLEUMS	4,993,114	4,997,425
551583	KING CETSHWAYO DISTRICT MUNICIPALITY	2,331,404	6,292,906
416383	RIVER ROCK INVEST (PTY) LTD	2,199,658	2,446,848
392020	RIVER ROCK INVEST (PTY) LTD	1,214,107	2,076,767
528545	RICHARDS BAY AIRPORT COMPANY (PTY) LTD	725,010	747,030
1317138	KING CETSHWAYO DISTRICT MUNICIPALITY	522,397	657,114
2368872	CADRE PROPERTIES (PTY) LTD	621,375	755,995
2247701	BEST CUT MEAT (PTY) LTD	2,266,923	2,950,046
		45,336,510	61,776,001

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 July 2018

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

2. FOSKOR (PTY) LTD

This account relates to a back-charge for water levied against Foskop in respect of the drought tariffs that was not applied to their account as well as a dispute regarding the charges levied in respect of sewer which are disputed. The matter is been handled by the office of the Chief Financial Officer and several meetings were held in this regard.

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. 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. The Business rescue Practitioner has now provided his Business Rescue Plan. There is a process where the plan must now be considered by the creditors and this is scheduled for the second week of July 2018

Update July 2018

The business rescue plan was adopted by the majority creditors. In terms of the business rescue plan, Council will receive the full outstanding amount on the account. The process is expected to be completed within 3-6 months.

4. 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.

The legal process to collect the debt is ongoing

Update July 2018

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

5. 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. The debtor disputed the charges in respect of the rates. They advised that under Ntambanana they were paying approximately R5 000 per month and are now expected to pay R33 000 per month. They undertook to raise the matter with the valuations department as it might be related to the manner in which the usage has been depicted on the valuation roll.

Update July 2018

There is no further progress as the valuation department is currently considering their submission.

6. RICHARDS BAY AIRPORTS COMPANY

This debt is in respect of outstanding concession fees. Notice was given to the Airports Company that the services will be disconnected and there have been several meetings and correspondences herein. The disconnection will proceed in August if the accounts are not paid.

7. RIVER ROCK INVESTMENTS (PTY) LTD (2 Accounts)

The 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 is 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 July 2018

There is no progress to report

8. KING CETSHWAYO DISTRICT MUNICIPALITY (2 accounts)

The charges relate to a sundry charge levied against one of the accounts of the accounts of the King Cetshwayo District Municipality (KCDM) as well as an account in respect of water. The lessor account relates to damage caused to the fibre optic cable at the Cemetery. KCDM officials indicated in correspondence that there has been some agreement with the contractor and Council. 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 from him 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.

Legal services section advised that they are dealing with the matter.

The higher account relates to a water account that is unpaid. Senior KCDM and Council officials have discussed the matter as it relates to the increased water tariffs which they submitted as being unsustainable. The electricity supply to the KCDM offices were disconnected and they did pay some money towards the account

Update July 2018

The matter is still ongoing and a new notice of disconnection of services is in the process of being issued.

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 Year	Over 1 Year	Total
National	16 332 840	72 053	25 027	11 436	14 521	7 413	1 051 232	841 914	18 356 436
Provincial	30 443 580	77 340	181 343	103 489	334 119	105 538	3 162 726	2 731 961	37 140 095
Totals	46 776 420	149 393	206 369	114 924	348 640	112 952	4 213 957	3 573 875	55 496 531
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	15 319 385	67 467	18 833	5 103	8 188	1 080	642 801	738 028	16 800 886
Rural Development & land	1 013 456	4 586	6 193	6 333	6 333	6 333	408 431	103 886	1 555 550
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	28 377 947	79 243	74 197	74 153	77 814	63 273	1 783 927	1 411 298	31 941 851
Education	635 957	5 354	6 151	6 154	5 527	3 997	502 902	503 982	1 670 024
Human Settlement	544 706	7 883	5 539	5 361	13 827	9 183	116 605	690 200	1 393 304
Department of Transport	88 913	-28 787					-		60 126
Department of Health	787 321	10 087	91 076	13 407	220 553	12 639	708 130	108 871	1 952 085
COGTA	9 080	4 763	4 380	4 413	16 397	16 447	51 162	17 609	124 250
Department of Social Welfare	-4 211	-1 202					-		-5 414
Department of Agriculture	3 867						-		3 867
SANRAL	-	-	-	-	-	-	-	-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	2 551 351	20 140	24 039	24 933	24 913	23 699	75 759	37 339	2 782 174
ESKOM	396 536	43 294	2 023	38 123	41 036	31 363	60 582	29 237	642 192
Ingonyama Trust Board	1 365 214	368	368	376	376	376	750 814	3 012 390	5 130 281
Telkom	208 753	1 880					-		210 634
Foskor	43 364 001	5 290 913	3 029 379	8 084 934			-		59 769 226
SA Post Office	11 221	2 779	4 594	4 990	3 974	2 411	-		29 970
Richards Bay IDZ	-	-	-	-	-	-	-	-	-

NOTES:

OFFICIAL FINAL VERSION

RPT 165182
Page 20 of 26

Comments Regarding Government Debt

A special workshop on Government Debt was held at Council offices, facilitated by Provincial Treasury. A special program is in place with the objective to provide a final resolve to all government debt. The results of the program will become clearer during this financial year. The co-operation between the different government departments are very 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.

The electricity to the National Departments was disconnected. Senior officials from the National Department of Public Works (NDPW) then had meetings with Council officials and several accounts were paid. The remaining outstanding accounts are being investigated.

Update July 2018

A notice of disconnection of services has now been issued to the Provincial Department of Public Works.

3.9 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 R85 310,10 as per **Annexure AB - DMS 1293466**.

Councillor's debt amounts to R16 235,64 as per **Annexure AC - DMS 1293466**.

4. 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.**

4.1 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.

4.1.1 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	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL JULY 2018 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	R	%
Overtime - Non-structured	31,516,500	2,626,375	1,964,303	662,072	75%
Overtime - Structured	22,729,300	1,894,108	787,972	1,106,136	42%
Shift Additional Remuneration	585,800	48,817	55,240	(6,423)	113%
TOTAL	54,831,600	4,569,300	2,807,515	1,761,785	61%

The overtime as per the table above has not exceeded 10% and no further comments are required.

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 July 2018 the employees in the following functions worked overtime of more than 10 hours per week which is the maximum that July 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	OVERTIME AMOUNT	1.5 OVERTIME - ACTUAL HOURS WORKED	2.0 OVERTIME - ACTUAL HOURS WORKED	TOTAL HRS	MAXIMUM HRS ALLOWED PER MONTH	DIFFEREN CE	NOTES
59188	FX001001005001	Community Halls and Facilities: Buildings Maintenance	7 290.92	34.00	12.00	46.00	40.00	6.00	a
2016095	FX015001002003	Sewerage - Sewerage Network	3 843.22	30.00	16.00	46.00	40.00	6.00	b
100253	FX002001001004	Electricity: Distribution	4 173.24	34.50	12.00	46.50	40.00	6.50	c
42283	FX002001002001	Street Lighting and Signal Systems: Street Lighting	5 211.60	34.50	12.00	46.50	40.00	6.50	d
NOTES:									
a	Employee 59188 worked 5 hrs x 1 Sunday + 3 hrs x 1 Public Holiday = 8 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 1 Sunday + 3 hr x 1 Public Holiday = 12 hours plus 34 hours at 1.5 = 46 hours paid BUT only 40 hours worked								
b	Employee 2016095 worked 5 hrs x 1 Sundays + 5 hrs x Public Holiday = 10 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 1 Sunday + 3 hrs x 1 Public Holiday = 6 hours plus 30 hours at 1.5 = 46 hours paid BUT only 40 hours worked								
c	Employee 100253 worked 4.5 hrs x 1 Sundays + 1 hrs x Public Holiday = 5.5 hours but Sunday time is rounded up to 8 hrs therefore 3.5 hrs x 1 Sunday + 3 hrs x 1 Public Holiday = 6.5 hours plus 34.50 hours at 1.5 = 46.5 hours paid BUT only 40 hours worked								
d	Employee 42283 worked 4.5 hrs x 1 Sundays + 1 hrs x Public Holiday = 5.5 hours but Sunday time is rounded up to 8 hrs therefore 3.5 hrs x 1 Sunday + 3 hrs x 1 Public Holiday = 6.5 hours plus 34.50 hours at 1.5 = 46.5 hours paid BUT only 40 hours worked								

4.2 Volume of Transfers

Type of Transfer of Funds	Jul-18
Capital	6
Operating	17
Total	23

Department	Jul-18
City Development	389,400
Community and Social Services	1,656,000
Corporate Services	602,600
Financial Services	-
Electrical and Energy Supply Services	3,387,900
Water and Sanitation Services	1,955,100
Office of The Municipal Manager	86,000
Total	8,077,000

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

4.3 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:

	2015/2016	2016/2017	2017/2018	2018/2019	
LINE ITEM	YEAR ACTUAL	ACTUAL YTD	ACTUAL YTD	PRO-RATA ADOPTED BUDGET JULY 2018	ACTUAL YTD 31/07/2018
	R	R		R	R
SAFEGUARD AND SECURITY	37,924,078	46,469,620	49,720,555	2,573,925	2,842,772

The spending patterns per department are as follows:

DEPARTMENT	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	JULY ACTUAL (YTD)	% OF ADOPTED BUDGET OVERSPENT
	R	R	R	R
CITY DEVELOPMENT	1,540,400	128,367	31,584	25%
COMMUNITY SERVICES	11,756,500	979,708	692,092	71%
CORPORATE SERVICES	3,577,600	298,133	708,461	238%
FINANCIAL SERVICES	2,526,100	210,508	49,566	24%
ENERGY AND ELECTRICAL SOURCES	5,994,900	499,575	170,188	34%
INFRASTRUCTURE SERVICES	5,491,600	457,633	1,190,881	260%
TOTAL	30,887,100	2,573,925	2,842,772	110%

5. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1293367**) 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

6. DEBTORS ANALYSIS

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

7. CREDITORS ANALYSIS

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

8. INVESTMENT PORTFOLIO ANALYSIS

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

9. 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 July 2018.

10. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

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

11. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 July 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**).

12. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **DMS 1295984** (**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.

COMMENTS OF THE MUNICIPAL MANAGER

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

RECOMMENDED THAT:

the financial position of the uMhlathuze Municipality as at 31 July 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 1293367**), be noted.