

12746
FINANCIAL REPORTING AS AT 31 AUGUST 2018

The report is submitted directly to the Executive Committee with the concurrence of the Mayor, Clr M G Mhlongo.

PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 31 August 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 August 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 August 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 August 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 August 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 August 2018 is included under **Annexures Z and AA (DMS 1299771)**.

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. FINANCIAL REPORT FOR THE MONTH OF AUGUST 2018

In terms of the Budget Regulations, Part 1 in-year reporting, the August 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 August 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 August 2018 (year to date actual) shows a surplus of R143,7 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 R25,8 million (4,92%). 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 2,10:1 (456 549/217 826). 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 August 2018:

DESCRIPTION	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL AUGUST 2018 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Revenue	3,184,097,300	694,264,206	665,032,057	95.79%
Less:				
Capital Grants and Subsidies	(129,223,800)	(21,537,300)	-	0.00%
Gains on Disposal of PPE	-	-	(1,071,683)	0.00%
Adopted Revenue Budget	3,054,873,500	672,726,906	663,960,374	98.70%
Expenditure	3,016,496,500	535,490,867	520,216,237	97.15%
Adopted Expenditure Budget	3,016,496,500	535,490,867	520,216,237	97.15%
Surplus/(Deficit)	38,377,000	137,236,040	143,744,137	

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 2,10:1 (456 549/217 827).

3.3 Grants Balances

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2018	AMOUNT GAZETTED FOR AUGUST 2018	TOTAL TO BE RECEIVED AS AT 30/06/2019	AMOUNT RECEIVED AS AT 31/08/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/08/2018	% SPENT	COMMENTS
NATIONAL TREASURY								
Equitable Share	135,940,000		326,255,000	135,940,000	190,315,000	54,375,833.33	17%	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		104,604,000	30,000,000	74,604,000	18,029,879	17%	This expenditure is as per claims submitted to COGTA
Financial Management Grant	-	2,650,000	2,650,000	2,650,000	-	74,559	3%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Municipal Water Infrastructure Grant-WSIG			16,000,000	-	16,000,000	1,794,233	11%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Extended Public Works Programme		1,298,000	5,189,000	1,298,000	3,891,000	1,080,499	21%	The grant is for the operational expenditure for EPWP
Infrastructure Skills Development Grant	2,300,000		5,000,000	2,300,000	2,700,000	653,714	13%	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		6,000,000	2,000,000	4,000,000	541,172	9%	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	465,698,000	174,188,000	291,510,000	76,549,889	16%	

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2017	AMOUNT GAZETTED FOR AUGUST 2017	TOTAL TO BE RECEIVED AS AT 30/06/2019	AMOUNT RECEIVED AS AT 31/08/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/08/2018	% SPENT	COMMENTS
PROVINCIAL TREASURY								
Provincialisation of Libraries	-	-	8,275,000	-	8,275,000	3,846,808	46%	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	211,915	13%	Expenditure shown is the total operating cost of the Cybercadets for the period.
Housing Operating Account	-	-	2,213,000	-	2,213,000	1,825,897	83%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	-	-	192,000	-	192,000	683,877	356%	Expenditure shown is the total operating cost of the Museum.
Sports and Recreation-Operational	-	-	58,000	-	58,000	-	0%	Sports and Recreation - Operational
Sports and Recreation-Capital	-	-	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	6,568,497	33%	
TOTAL GRANTS AND SUBSIDIES	170,240,000	3,948,000	485,862,000	174,188,000	311,674,000	83,118,386	17%	

3.4 Capital Budget Summary

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

FUNCTION	ADOPTED BUDGET 2018/2019	ACTUAL AUGUST 2018 (YTD)	% OF ADOPTED BUDGET SPENT
	R	R	%
Finance and Administration	102,236,000	42,682	0.04%
Community and Social Services	54,821,300	2,985,308	5.45%
Energy Sources	85,472,000	2,075,580	2.43%
Environmental Protection	200,000	-	0.00%
Planning and Development	3,952,500	124,868	3.16%
Public Safety	559,000	13,500	2.42%
Road Transport	133,723,200	8,500,200	6.36%
Sport and Recreation	25,600,400	29,000	0.11%
Waste Management	1,700,000	-	0.00%
Waste Water Management	48,123,200	7,784,313	16.18%
Water	68,773,200	4,260,764	6.20%
	525,160,800	25,816,215	4.92%

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADOPTED BUDGET 2018/2019	ACTUAL AUGUST 2018 (YTD)	% OF ADOPTED BUDGET SPENT
	R	R	%
Borrowing	310,000,000	11,616,207	3.75%
Capital Replacement Reserve	85,937,000	1,894,453	2.20%
MIG	99,373,800	9,970,150	10.03%
Government Grants - National	22,000,000	2,335,405	10.62%
Government Grants - Provincial	7,850,000	-	0.00%
TOTAL	525,160,800	25,816,215	4.92%

3.5 Expenditure per Category

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

EXPENDITURE BY TYPE	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL AUGUST 2018 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Employee related costs	812,123,200	135,353,867	114,938,174	84.92%
Remuneration of Councillors	31,880,800	5,313,467	4,814,283	90.61%
Debt Impairment	26,512,500	4,418,750	4,418,750	100.00%
Depreciation and asset impairment	376,066,000	62,677,667	62,677,667	100.00%
Finance Charges	67,884,000	11,314,000	11,314,000	100.00%
Bulk Purchases - Electricity	897,363,700	178,591,000	202,997,347	113.67%
Bulk Purchases - Water	103,581,500	17,263,583	19,744,224	114.37%
Other Materials	114,232,700	19,038,783	15,586,671	81.87%
Contracted Services	312,731,000	52,121,833	47,521,935	91.17%
Transfers and grants	12,533,600	5,800,000	5,738,068	98.93%
Other Expenditure	261,587,500	43,597,917	30,465,118	69.88%
TOTAL	3,016,496,500	535,490,867	520,216,237	97.15%

Employee related costs

The Salary and wage collective agreement for the period 1 August 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.

Bulk Purchases - Electricity

Electricity purchases are higher in August 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:

Programmes	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)	138,476
Women's Day celebration	100,000
Arts and Culture Programmes (uMhlanga)	246,177
Economic Development programmes	260,870
Bursaries (Non-Employee) – children of employees	73,595
Downstream Aluminium Centre For Technology	188,000
Richards Bay SPCA & Empangeni SPCA	420,000
	5,738,068

46% of the total budget for transfers and grants has already been spent during the first quarter 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 AUGUST 2018 (YTD)	% PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	%
Rates	474,453,400	113,940,673	114,186,218	100.22%
Service Charges – Electricity revenue	1,579,530,100	340,974,000	297,003,832	87.10%
Service Charges – Water revenue	337,842,300	30,804,000	71,426,021	231.87%
Service Charges – Refuse revenue	80,371,500	13,395,250	17,764,029	132.61%
Service Charges – Sanitation revenue	99,625,200	16,604,200	16,903,525	101.80%
Rental of facilities and equipment	8,448,800	1,408,133	1,601,418	113.73%
Interest earned – external investments	55,000,000	9,166,667	4,903,618	53.49%
Interest earned – outstanding debtors	3,397,900	566,317	750,347	132.50%
Fines	4,087,300	681,217	1,243,804	182.59%
Licences and permits	3,807,500	634,583	601,976	94.86%
Agency services	7,796,500	1,299,417	1,046,667	80.55%
Operating Grants and Subsidies	356,638,300	135,940,000	135,940,000	100.00%
Capital Grants and Subsidies	129,223,800	21,537,300	-	0.00%
Gains on Disposal of PPE	-	-	1,071,683	0.00%
Other Revenue	43,874,700	7,312,450	588,919	8.05%
TOTAL REVENUE	3,184,097,300	694,264,206	665,032,057	95.79%
Gains on Disposal of PPE	-	-	(1,071,683)	0.00%
Capital Grants and Subsidies	(129,223,800)	(21,537,300)	-	0.00%
TOTAL OPERATING REVENUE	3,054,873,500	672,726,906	663,960,374	98.70%

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

3.7 Surplus and Deficit by Service Category

SERVICES	ADOPTED BUDGET 2018/2019			ACTUAL AS AT 31 AUGUST 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)	29	(1,361)	1,390
Finance and Administration	549,274	39,114	510,160	121,889	(5,714)	127,603
Community and Social Services	20,302	92,392	(72,090)	498	14,971	(14,473)
Sport and Recreation	20,464	161,009	(140,545)	851	23,487	(22,636)
Public Safety	1,102	71,238	(70,136)	91	11,000	(10,909)
Housing	3,804	17,810	(14,006)	258	2,932	(2,674)
Environmental Protection	1,009	11,050	(10,041)	-	1,422	(1,422)
Planning and Development	18,676	91,739	(73,063)	2,347	12,760	(10,413)
Internal Audit	-	44	(44)	-	759	(759)
Road Transport	31,850	280,003	(248,153)	2,310	44,463	(42,153)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	-	48,469	(48,469)	-	8,002	(8,002)
Other	8,700	5,966	2,734	1	732	(731)
Total Rates and General Services	655,372	840,677	(185,305)	128,274	113,453	14,821
Airport	736	115	621	-	10	(10)
Trading Services						
Electricity	1,596,982	1,292,648	304,334	300,066	259,760	40,306
Water	491,501	462,737	28,764	113,552	72,038	41,514
Clarified Water	27,219	15,216	12,003	7,320	5,243	2,077
Sewerage	275,326	240,597	34,729	70,868	43,678	27,190
Refuse Removal	145,652	164,506	(18,854)	44,952	26,035	18,917
Total Trading Services	2,536,680	2,175,704	360,976	536,758	406,754	130,004
Total Service Category	3,192,788	3,016,496	176,292	665,032	520,217	144,815

The table above sets out the surplus and deficit for each service category. It is important to note that trading services namely Electricity, Water, Clarified Water, Sewerage and Refuse Removal are expected to be profitable and they 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 August 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	23,060,320	138,192	113,795	6,907,356	30,219,663
Business	287,600,790	8,020,438	6,152,456	64,540,142	366,313,826
Households	53,168,337	5,699,333	5,098,456	104,808,045	168,774,171
Other	3,619,451	400,778	264,820	6,828,166	11,113,215
Total	367,448,898	14,258,741	11,629,527	183,083,709	576,420,875
%	63.75%	2.47%	2.02%	31.76%	

FINANCIAL REPORTING ON INCOME / DEBT

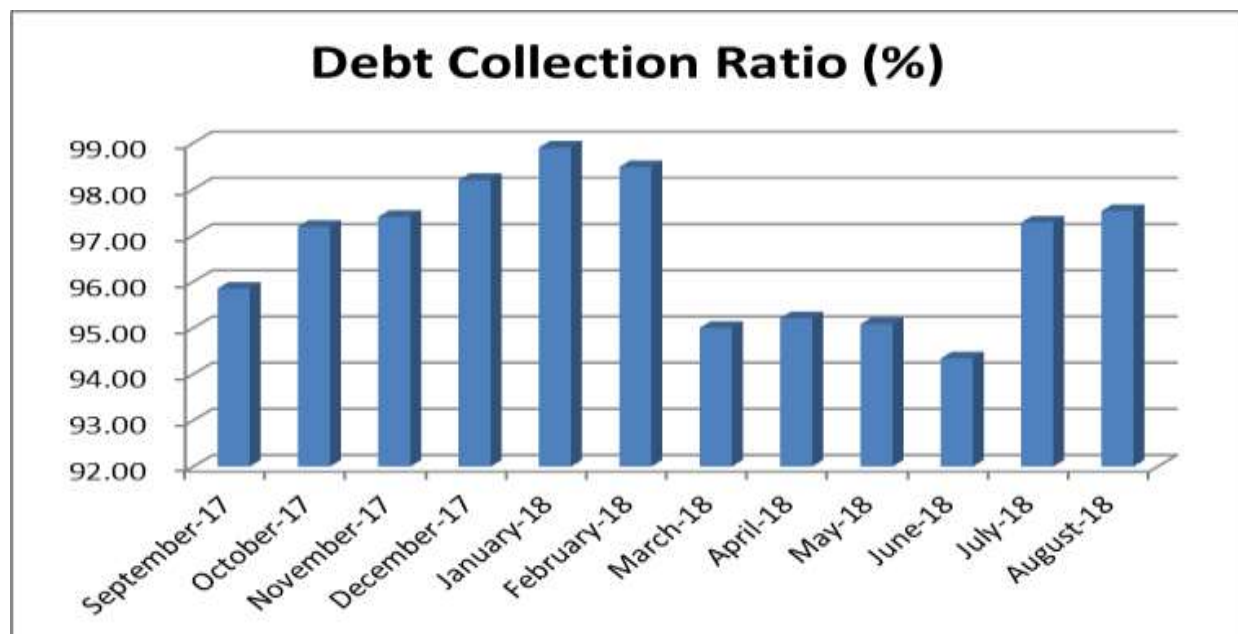
Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform Treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National 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 (%)
August-18	97.53
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



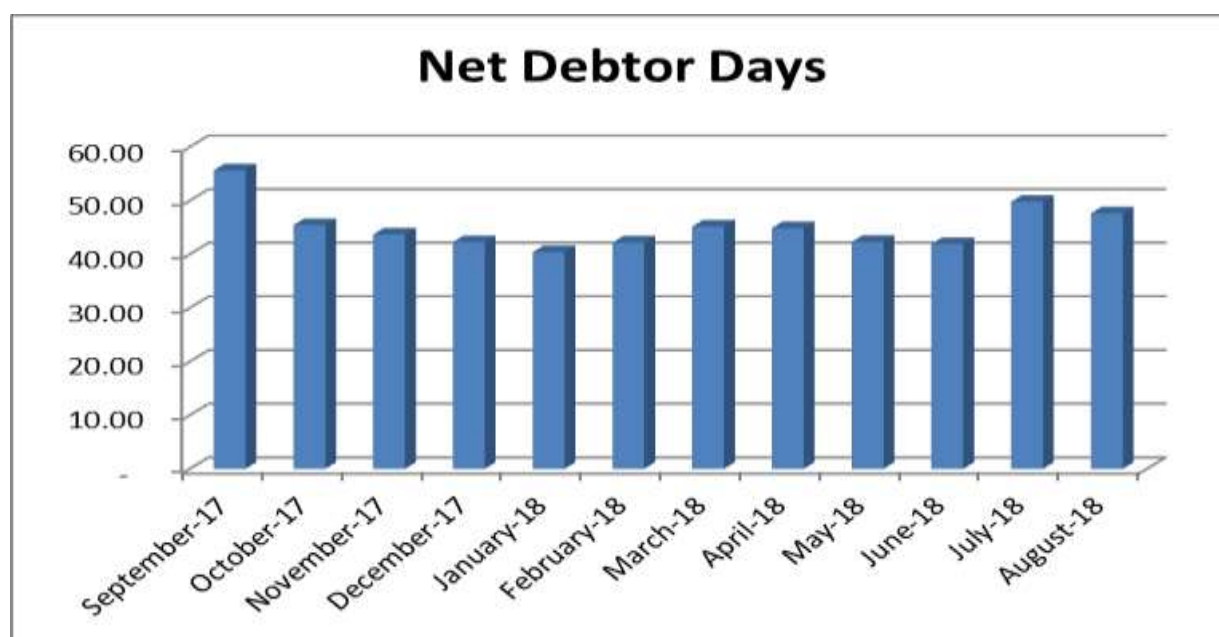
➤ **Net Debtors Days**

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

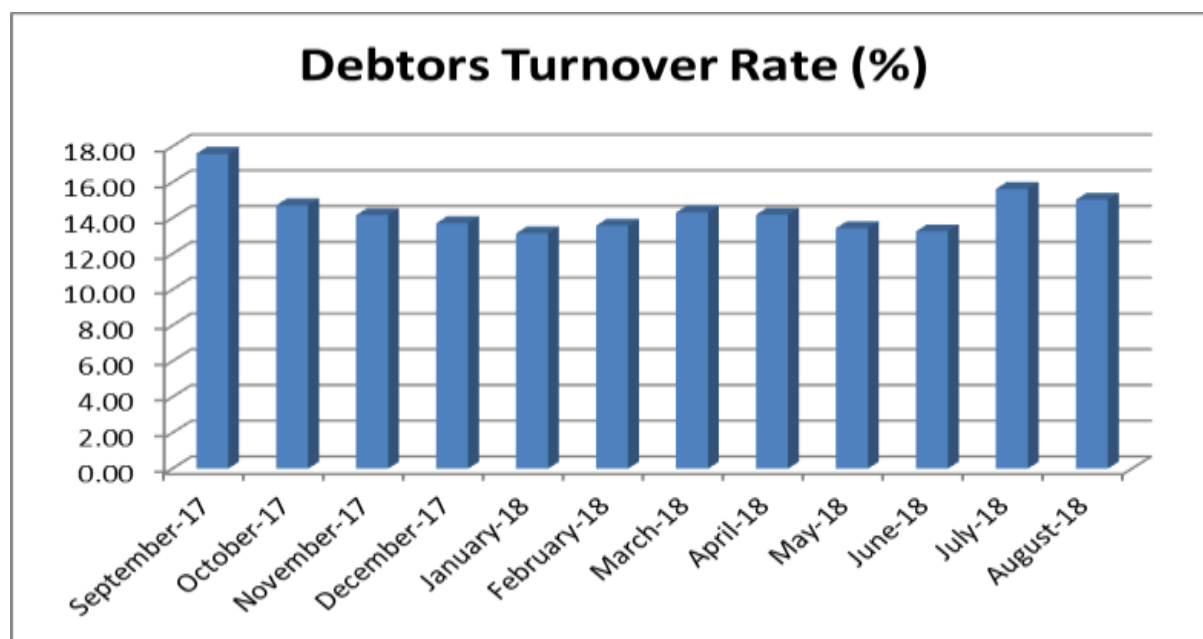
Month	Net Debtor Days
August-18	47.63
July-18	49.79
June-18	41.92
May-18	42.30
April-18	44.89
March-18	45.17
February-18	42.17
January-18	40.40
December-17	42.28
November-17	43.70
October-17	45.45
September-17	55.66



Debtor's Turnover Rate

The norm is to be below 20%.

Month	Debtors Turnover Rate (%)
August-18	15.03
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



Top Ten Business Debts

Debtor No	Name	91 Days +	Total
1854904	BASFOUR 3721 (PTY) LTD	22 377 589.88	22 377 589.88
568393	FOSKOR (PTY) LTD	8 084 933.50	18 474 279.94
2289941	PANDA PETROLEUMS	4 993 113.64	4 997 425.16
551583	KING CETSWAYO DISTRICT MUNICIPALITY	2 331 404.06	6 292 906.27
2247701	BEST CUT MEAT (PTY) LTD	2 266 922.77	2 950 045.66
416383	RIVER ROCK INVEST (PTY) LTD	2 199 657.54	2 446 847.76
392020	RIVER ROCK INVEST (PTY) LTD	1 214 106.66	2 076 767.27
528545	RICHARDS BAY AIRPORT COMPANY (PTY)LTD	725 009.67	747 029.51
2368872	CADRE PROPERTIES PTY LTD	621 375.35	755 995.44
1317138	KING CETSWAYO DISTRICT MUNICIPALITY	522 397.38	657 113.86
		45 336 510.45	61 776 000.75

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: Aug 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 Foskor 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 being handled by the office of the Chief Financial Officer and several meetings were held in this regard.

Update: Aug 2018

Further meetings were held and certain corrections were made on their account. All issues were resolved and will be addressed / paid during September 2018. One account that relates to a back-charge in respect of the drought water will be paid off in instalments.

3. 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 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 pending 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: Aug 2018

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

4. 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 arrangements were concluded and substantial first payments were 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. 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.

Update: Aug 2018

There is no further progress as the business rescue process is continuing and the implementation of the proposed rescue plan is executed.

5. KING CETSWHAYO 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 was disconnected and they did pay some money towards the account.

A formal letter was received requesting Council to reconsider the applicable water tariff.

Update: Aug 2018

The matter is ongoing.

6. 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: Aug 2018

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

7. RICHARDS BAY AIRPORTS COMPANY

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

Update: Aug 2018

A substantial payment was made and an arrangement was concluded to repay the account in instalments.

8. 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 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: Aug 2018

There is no progress to report.

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	-	-	-	-	-	-	-	-	-

Comments Regarding Government Debt

The electricity to the National Departments were 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. A notice of disconnection of services was issued to the Provincial Department of Public Works in July 2018.

Update: Aug 2018

A high level meeting were held in Durban between all the relevant government departments and UMhlathuze Municipality officials. The relevant government departments are very eager to resolve all the arrear accounts and substantial payments are expected soon.

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 R30 393,37 as per **Annexure AB - DMS 1299771**.

Councillor's debt amounts to R78,10 as per **Annexure AC - DMS 1299771**.

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 2017/2018	PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL AUGUST 2018 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA ADOPTED BUDGET SPENT
	R	R	R	R	%
Overtime - Non-structured	31,516,500	5,252,750	4,268,832	983,918	81%
Overtime - Structured	22,729,300	3,788,217	1,826,334	1,961,883	48%
Shift Additional Remuneration	585,800	97,633	251,156	(153,523)	257%
TOTAL	54,831,600	9,138,600	6,346,322	2,792,278	69%

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 August 2018 the employees in the following functions worked overtime of more than 10 hours per week which is the maximum that August 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	0.5 OVERTIME - ACTUAL HOURS WORKED	1.0 OVERTIME - ACTUAL HOURS WORKED	TOTAL HRS	1.5 OVERTIME - ACTUAL HOURS WORKED	2.0 OVERTIME - ACTUAL HOURS WORKED	TOTAL HRS	MAXIMUM HRS ALLOWED PER MONTH	DIFFERENCE	NOTES
45096	FX015001002003	Sewerage - Sewerage Network	13,961.00	-	-	-	50.00	20.00	70.00	50.00	20.00	a
48140	FX015001002003	Sewerage - Sewerage Network	13,714.88	-	-	-	40.00	12.00	52.00	50.00	2.00	b
46839	FX015001002003	Sewerage - Sewerage Network	12,258.54	-	-	-	45.00	18.00	63.00	50.00	13.00	c
2008011	FX015001002003	Sewerage - Sewerage Network	4,710.36	-	-	-	33.00	18.00	51.00	50.00	1.00	d
44826	FX015001002003	Sewerage - Sewerage Network	12,730.00	-	-	-	50.00	10.00	60.00	50.00	10.00	e
100285	FX002001001001	Electricity: Marketing and Customer relations	7,732.80	-	-	-	44.00	12.00	56.00	50.00	6.00	f
2006002	FX002001001004	Electricity: Distribution	12,361.72	-	-	-	44.00	12.00	56.00	50.00	6.00	g
2006062	FX002001001004	Electricity: Distribution	4,718.92	-	-	-	44.00	12.00	56.00	50.00	6.00	h
2005017	FX015001002003	Sewerage - Sewerage Network	14,495.56	-	-	-	34.00	20.00	54.00	50.00	4.00	i
NOTES:												
a	Employee 45096 worked 10 hrs x 2 Sundays = 20 hours plus 50 hours at 1.5 = 70 hours paid - 70 hours worked (Memo DMS 1291090 Approval from MM to pay 20 hrs over the 50 hours allowed)											
b	Employee 48152 worked 6 hrs x 1 Sunday + 4 hrs x 1 Sunday = 10 hours but Sunday time is rounded up to 8 hrs therefore 2 hrs x 1 Sunday = 12 hours plus 40 hours at 1.5 = 52 hours paid BUT only 50 hours worked											
c	Employee 46839 worked 10 hrs x 1 Sunday and 5 hrs x 1 Sunday = 15 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 1 Sunday = 18 hours plus 45 hours at 1.5 = 63 hours paid - 60 hours worked (DMS 1291090 Approval from MM to pay 13 hrs over the 50 hours allowed)											
d	Employee 2008011 worked 7 hrs x 1 Sunday + 10 hrs x 1 Sunday = 17 hours but Sunday time is rounded up to 8 hrs therefore 1 hrs x 1 Sunday = 18 hours plus 33 hours at 1.5 = 51 hours paid BUT only 50 hours worked											
e	Employee 44826 worked 10 hrs x 1 Sunday = 10 hours plus 50 hours at 1.5 = 60 hours paid - 60 hours worked (DMS 1291090 Approval from MM to pay 10 hrs over the 50 hours allowed)											
f	Employee 100285 worked 1 hrs x 1 Sunday + 5 hrs x 1 Sunday = 6 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 2 Sundays = 12 hours plus 44 hours at 1.5 = 56 hours paid BUT only 50 hours worked											
g	Employee 2006002 worked 1 hrs x 1 Sunday + 5 hrs x 1 Sunday = 6 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 2 Sundays = 12 hours plus 44 hours at 1.5 = 56 hours paid BUT only 50 hours worked											
h	Employee 2006062 worked 1 hrs x 1 Sunday + 5 hrs x 1 Sunday = 6 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 2 Sundays = 12 hours plus 44 hours at 1.5 = 56 hours paid BUT only 50 hours worked											
i	Employee 2005017 worked 7 hrs x 1 Sunday + 5 hrs x 1 Sunday + 4 hrs x 1 Sunday = 16 hours but Sunday time is rounded up to 8 hrs therefore 1 hrs x 1 Sunday + 3 hrs x 1 Sunday = 20 hours plus 34 hours at 1.5 = 54 hours paid BUT only 50 hours worked											

NOTES:

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4.2 Volume of Transfers

Department	Aug-18			Total Volume Of Virements	Total Volume Of Virements	Total Value of Virements
	Capital	Operating	Value R	Capital	Operating	R
City Development	1	10	179,200	3	10	568,600
Community and Social Services	3	10	5,641,300	6	12	7,297,300
Corporate Services	3	13	6,051,400	3	22	6,654,000
Financial Services	-	3	2,148,900	-	3	2,148,900
Electrical and Energy Supply Services	1	3	613,000	2	4	4,000,900
Engineering Support Services	-	2	648,700	-	2	648,700
Roads and Stormwater	-	2	2,000,000	-	2	2,000,000
Water and Sanitation Services	-	1	150,000	-	4	2,105,100
Office of The Municipal Manager	-	3	9,800	-	5	95,800
Total	8	47	17,442,300	14	64	25,519,300

The table indicated above shows the Virements received by Financial Services in August 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:

LINE ITEM	2015/2016	2016/2017	2017/2018	2018/2019	
	YEAR ACTUAL	ACTUAL YTD	INTERIM ACTUAL YTD	PRO-RATA ADOPTED BUDGET JULY 2018	ACTUAL YTD 31/08/2018
	R	R		R	R
SAFEGUARD AND SECURITY	37,924,078	46,469,620	49,720,555	5,147,850	6,874,657

The spending patterns per department are as follows:

DEPARTMENT	ADOPTED BUDGET 2018/2019	PRO-RATA ADOPTED BUDGET (YTD)	AUGUST ACTUAL (YTD)	% OF ADOPTED BUDGET OVERSPENT
	R	R	R	R
CITY DEVELOPMENT	1,540,400	256,733	31,584	12%
COMMUNITY SERVICES	11,756,500	1,959,417	2,233,870	114%
CORPORATE SERVICES	3,577,600	596,267	1,474,177	247%
FINANCIAL SERVICES	2,526,100	421,017	256,232	61%
ENERGY AND ELECTRICAL SOURCES	5,994,900	999,150	549,020	55%
INFRASTRUCTURE SERVICES	5,491,600	915,267	2,329,774	255%
TOTAL	30,887,100	5,147,850	6,874,657	134%

5. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1299769**) 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 August 2018.

7. CREDITORS ANALYSIS

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

8. INVESTMENT PORTFOLIO ANALYSIS

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

10. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

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

11. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 August 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 1301820** (**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 August 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 1299769)**, be noted.