

13137

## FINANCIAL REPORTING AS AT 28 FEBRUARY 2019

*This report served before Financial Services Portfolio Committee on 26 March 2019. The report was noted.*

### PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 28 February 2019 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

### DISCUSSION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Component 1, comprised of actual revenue collected by source and Component 2, comprised of actual operational and capital expenditure by vote for the month of January 2019 is included under **Annexures Z and AA (DMS 1330582)**.

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## PART 1 - IN-YEAR REPORTING

### 1. MAYOR'S REPORT FOR THE MONTH OF FEBRUARY 2019

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

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

The Mayor has considered the Section 71 report for the month of February 2019, and the performance of the Municipality against its budget is in line with the adjusted budget that was approved by Council in February 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 February 2019 (year to date actual) shows a surplus of R53,4 million. The anticipated surplus for the month 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 debtor's months billing as well. The performance in this area is **Acceptable but with concern.**

#### **Capital Budget**

Council is in the third quarter of the financial year and capital expenditure is fairly low at R251,5 million (43,54%). This is based on the Adjusted Capital Budget of R586 million. Expenditure is expected to rise as the year progresses. The performance in this area although is **not Acceptable proportionately**. 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 1,62:1 (357 371/220 294). Therefore, the Municipality has a positive bank balance to defray its expenses. The performance in this area is although **not acceptable as it is below the policy target of 2:1, is as a result of a strategic reason in that the Chief Financial Officer has as yet not taken up the R310 million borrowing for this year. As a result the R135,7 million capex spent from borrowings is (see page 8 – source of capex funding) effectively coming out of working capital.**

### 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 28 February 2019:

DESCRIPTION	ADJUSTED BUDGET 2018/2019	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2019 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Revenue (Excluding Capital Grants)	2,990,430,900	2,002,060,949	1,997,863,277	99.79%
Expenditure	3,049,388,800	1,932,574,699	1,944,434,064	100.61%
<b>Surplus/(Deficit) (Excluding Capital Grants)</b>	<b>(58,957,900)</b>	<b>69,486,250</b>	<b>53,429,213</b>	

### 3.2 Cash Flow Situation

#### **Council's Working Capital Policy:**

In terms of Council's Adopted Working Capital Policy, the objective is for the Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 1,62:1 (357 371/220 294). The Chief Financial Officer has as yet not taken up the R310 million borrowing for this year. As a result of the R135,7 million capex spent from borrowings is effectively coming out of working capital. The tender for the borrowing process will be finalised before 30 June 2019.

### 3.3 Grants Balances

DESCRIPTION OF GRANT	AMOUNT RECEIVED FOR QUARTER ENDED SEPTEMBER 2018	AMOUNT RECEIVED FOR QUARTER ENDED DECEMBER 2018	AMOUNT GAZETTED FOR JANUARY 2019	AMOUNT GAZETTED FOR FEBRUARY 2019	TOTAL TO BE RECEIVED AS AT 30/06/2019	AMOUNT RECEIVED AS AT 28/02/2019	DIFFERENCE	ACTUAL EXPENDITURE AS AT 28/02/2019	% SPENT	COMMENTS
<b>NATIONAL TREASURY</b>										
Equitable Share	135 940 000	103 832 000	-	-	326 255 000	244 692 000	81 563 000	217 503 333.33	67%	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	40 000 000	-	-	104 604 000	70 000 000	34 604 000	56 866 940	54%	This expenditure is as per claims submitted to COGTA.
Financial Management Grant	-		-	-	2 650 000	2 650 000	-	1 207 379	46%	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	5 180 192	32%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Extended Public Works Programme	-	2 335 000	-	1 556 000	5 189 000	5 189 000	-	4 578 045	88%	The grant is for the operational expenditure for EPWP
Infrastructure Skills Development Grant	2 300 000		-	-	2 300 000	2 300 000	-	2 300 000	100%	uMhlathuze Municipality is no longer a beneficiary of this National Treasury grant as from the 1st February 2019.
Energy Efficiency and Demand Side management Grant	2 000 000	2 000 000	2 000 000	-	6 000 000	6 000 000	-	5 680 426	95%	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
<b>TOTAL NATIONAL TREASURY GRANTS</b>	<b>170 240 000</b>	<b>148 167 000</b>	<b>2 000 000</b>	<b>1 556 000</b>	<b>462 998 000</b>	<b>330 831 000</b>	<b>132 167 000</b>	<b>293 316 316</b>	<b>63%</b>	

DESCRIPTION OF GRANT	AMOUNT RECEIVED FOR QUARTER ENDED SEPTEMBER 2018	AMOUNT RECEIVED FOR QUARTER ENDED DECEMBER 2019	AMOUNT GAZETTED FOR JANUARY 2018	AMOUNT GAZETTED FOR FEBRUARY 2018	TOTAL TO BE RECEIVED AS AT 30/06/2019	AMOUNT RECEIVED AS AT 28/02/2019	DIFFERENCE	ACTUAL EXPENDITURE AS AT 28/02/2019	% SPENT	COMMENTS
<b>PROVINCIAL TREASURY</b>										
Provincialisation of Libraries	8 275 000	8 275 000	-	-	8 275 000	8 275 000	-	15 667 716	189%	Expenditure shown is the total operating cost of the Libraries to date.
Community Library Services Grant (Cyber cadets)	1 576 000	1 576 000	-	-	1 576 000	1 576 000	-	784 777	50%	Expenditure shown is the total operating cost of the Cybercadets to date.
Housing Operating Account	896 166	896 166	-	-	2 213 000	896 166	1 316 834	8 349 662	377%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	192 000	192 000	-	-	192 000	192 000	-	2 917 581	1520%	Expenditure shown is the total operating cost of the Museum.
Sports and Recreation - Operational	50 000	50 000			50 000	50 000	-	-	0%	Operational grant for the payment of Caretakers for recreation facilities.
Sports and Recreation - Capital	2 616 500	2 616 500			7 850 000	2 616 500	5 233 500	1 399 385	18%	Sports and Recreation - Provincial Allocation for Construction of Fitness Centre at Esikhaleni
<b>TOTAL PROVINCIAL TREASURY GRANTS</b>	<b>13 605 666</b>	<b>13 605 666</b>	<b>-</b>	<b>-</b>	<b>20 156 000</b>	<b>13 605 666</b>	<b>6 550 334</b>	<b>29 119 121</b>	<b>144%</b>	
<b>TOTAL GRANTS AND SUBSIDIES</b>	<b>183 845 666</b>	<b>161 772 666</b>	<b>2 000 000</b>	<b>1 556 000</b>	<b>483 154 000</b>	<b>344 436 666</b>	<b>138 717 334</b>	<b>322 435 438</b>	<b>67%</b>	

### 3.4 Capital Budget Summary

The table below represents Capital Expenditure incurred as at 28 February 2019:

FUNCTION	ADJUSTED BUDGET 2018/2019	VIREMENTS	SYSTEM BUDGET	ACTUAL FEBRUARY 2019 (YTD)	% OF DRAFT ADJUSTED BUDGET SPENT
	R	R	R	R	%
Finance and Administration	131,075,100	3,307,800	134,382,900	48,351,258	40.50%
Community and Social Services	60,859,800	227,000	61,086,800	21,570,420	37.10%
Energy Sources	95,772,500	(3,527,000)	92,245,500	37,588,716	39.15%
Executive and Council	388,700	-	388,700	-	0.00%
Environmental Protection	238,500	(7,800)	230,700	208,341	87.35%
Planning and Development	4,838,000	-	4,838,000	260,991	5.39%
Public Safety	499,000	-	499,000	200,315	40.14%
Road Transport	142,214,300	-	142,214,300	59,322,919	40.08%
Sport and Recreation	27,502,100	-	27,502,100	4,871,870	17.71%
Waste Management	3,015,200	-	3,015,200	1,191,504	39.52%
Waste Water Management	49,215,200	690,000	49,905,200	40,865,758	83.03%
Water	70,710,000	(690,000)	70,020,000	37,049,544	52.40%
	<b>586,328,400</b>	<b>-</b>	<b>586,328,400</b>	<b>251,481,636</b>	<b>43.54%</b>

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADJUSTED BUDGET 2018/2019	ACTUAL FEBRUARY 2019 (YTD)	% OF DRAFT ADJUSTED BUDGET SPENT
	R	R	%
Borrowing	310,000,000	135,703,628	43.78%
Capital Replacement Reserve	147,104,600	51,604,640	35.08%
MIG	99,373,800	51,806,702	52.13%
Government Grants - National	22,000,000	10,637,536	48.35%
Government Grants - Provincial	7,850,000	1,729,129	22.03%
<b>TOTAL</b>	<b>586,328,400</b>	<b>251,481,635</b>	<b>42.89%</b>



### 3.5 Expenditure per Category

The table below represents operating expenditure per category incurred as at 28 February 2019:

EXPENDITURE BY TYPE	ADJUSTED BUDGET 2018/2019	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2019 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Employee related costs	810,017,000	506,096,460	502,169,618	99.22%
Remuneration of Councillors	31,487,700	20,274,926	20,237,535	99.82%
Debt Impairment	29,729,500	21,615,003	21,614,978	100.00%
Depreciation and asset impairment	376,066,000	250,716,669	250,716,669	100.00%
Finance Charges	59,358,500	45,255,900	45,256,000	100.00%
Bulk Purchases - Electricity	871,144,200	585,625,000	581,036,510	99.22%
Bulk Purchases - Water	103,578,200	76,993,000	79,976,045	103.87%
Other Materials	126,546,000	86,979,015	76,099,118	87.49%
Contracted Services	367,296,300	218,564,295	234,577,140	107.33%
Transfers and grants	15,179,100	10,699,500	10,336,904	96.61%
Other Expenditure	258,986,300	109,754,931	122,413,547	111.53%
<b>TOTAL</b>	<b>3,049,388,800</b>	<b>1,932,574,699</b>	<b>1,944,434,064</b>	<b>100.61%</b>

#### **Pro-rata adopted budget**

The figures shown in the table above for the Pro-Rata Adopted Budget have been extracted from the 2018/19 Adjusted Budget Tables – Table SB14 - Budgeted monthly revenue and expenditure.

This table sets out Council's projected monthly revenue and expenditure and has been based on actual revenue and expenditure from previous months. It forms a more accurate comparison than the budget divided by 12 months.

It is important to note that the projected expenditure for the remainder of the financial year shows an acceleration in June 2019 mainly due to the higher tariffs charged for Electricity Purchases as well as other annual costs that are due in June of each year. Departmental spending patterns also accelerate.

#### **Employee related costs**

The Salary and wage collective agreement for the period 1 July 2018 to 30 June 2021 has been finalised. The salary increases and respective back pay has been calculated and is included in actual expenditure.

#### **Bulk Purchases - Electricity**

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

## Bulk Purchases – Water

It bears noting that Council budgeted for a 5.5% increase in Water Purchases. However, the actual increase as per Mhlathuze Water is as follows:

- Potable water = 8.14%
- Raw water = 7.42%
- Clarified water = 12.11%

## Other Materials

Included under Other Materials are the following items that have exceeded the pro-rata budget:

	ADJUSTED BUDGET 2018/2019	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2019 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT	% ADJUSTED BUDGET SPENT
	R	R	R	%	%
Materials for Maintenance on Rural Roads	17,419,400	11,612,900	15,484,499	133.34%	88.89%

It is important to note that if the current spending pattern continues the respective departments will exhaust their 2018/19 Adjusted Budget allocations before the end of the financial year. Each department will then need to identify savings from other items and prepare the necessary virements.

## Contracted Services

Included under Contracted Services are the following items that have exceeded the pro-rata budget:

	ADJUSTED BUDGET 2018/2019	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2019 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT	% ADJUSTED BUDGET SPENT
	R	R	R	%	%
Outsourced Services:Sewerage Services	87,383,600	58,255,700	86,427,010	148.36%	98.91%
Consultants and Professional Services: Business and Advisory: Project Management - ERP Project Managers	17,152,000	11,434,700	12,175,875	106.48%	70.99%
Contractors: Maintenance of Buildings and Facilities - Telemetry	6,523,500	4,349,000	5,496,005	126.37%	84.25%

It is important to note that if the current spending pattern continues the respective departments will exhaust their 2018/19 Adjusted Budget allocations before the end of the financial year. Each department will then need to identify savings from other items and prepare the necessary virements.

## 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
Women's Day celebration	100,000
Aerobics Marathon	100,000
Disaster Management	148,607
Soul And Jazz Experience	1,555,000
Madiba Jive	250,000
Sponsorship Of Face Of Mzansi Finalist 2018	6,000
Catering for 1300 Maidens	203,050
Operation Siyaya Emhlangeni	197,677
Last Dance Festival	1,000,000
All Wards-Ingoma Competition	53,250
Nkosi Mthiyane Schools Tournament	100,000
God's Power Gospel Celebration Tour	30,000
Jabulani Shandu Ematshane Production	30,000
4th Annual Spring Tour Music Festival	300,000
Cebile Live Music Concept	15,000
Posters For Poet And Comedy Show	10,800
Umhlathuze Music Festival	100,000
Sisters Help Desk Corner	500,000
Dolosfees	200,000
Housing Project at Esikhaleni J1 Damaged by Sewer Line	28,980
Jabulani Shandu Ematshane Productions - Assistance	20,000
Other special programmes (Youth, religious sector, policy formulation, Operation Sukuma Sa	1,278,881
Economic Development programmes	458,986
Downstream Aluminium Centre For Technology	188,000
uMhlathuze Tourism Organisation	140,942
Bursaries (Non-Employee) – children of employees	401,731
Richards Bay SPCA & Empangeni SPCA	420,000
	<b>10,336,904</b>

### 3.6 Revenue per Category

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

REVENUE BY SOURCE	ADJUSTED BUDGET 2018/2019	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2019 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Rates	495,732,400	331,791,577	331,838,929	100.01%
Service Charges – Electricity revenue	1,443,738,600	967,188,481	952,139,517	98.44%
Service Charges – Water revenue	366,611,700	269,990,072	280,335,036	103.83%
Service Charges – Refuse revenue	84,371,500	54,711,787	56,794,845	103.81%
Service Charges – Sanitation revenue	123,455,200	67,213,725	66,754,204	99.32%
Rental of facilities and equipment	8,598,600	5,459,853	5,569,290	102.00%
Interest earned – external investments	55,000,000	25,074,277	22,121,432	88.22%
Interest earned – outstanding debtors	85,700	76,960	89,346	116.09%
Fines	7,698,200	6,115,582	6,815,995	111.45%
Licences and permits	3,307,500	2,297,622	2,473,025	107.63%
Agency services	5,796,500	4,381,243	4,279,129	97.67%
Operating Grants and Subsidies	354,985,300	261,167,988	260,191,386	99.63%
Gains on Disposal of PPE	759,300	1,207,359	1,316,895	0.00%
Other Revenue	40,290,400	5,384,423	7,144,248	132.68%
<b>TOTAL REVENUE (EXCLUDING CAPITAL GRANTS)</b>	<b>2,990,430,900</b>	<b>2,002,060,949</b>	<b>1,997,863,277</b>	<b>99.79%</b>

The above table represents operating revenue per category as at 28 February 2019.

#### **Pro-rata adjusted budget**

The figures shown in the table above for the Pro-Rata Adjusted Budget have been extracted from the 2018/19 Adjusted Budget Tables – Table SB14 - Budgeted monthly revenue and expenditure.

This table sets out Council's projected monthly revenue and expenditure and has been based on actual revenue and expenditure from previous months. It forms a more accurate comparison than the budget divided by 12 months.

**Rates** - Includes annual rates billing from annual rate payers, i.e. government accounts.

**Rental of facilities and equipment** – Decreased due to cancellation of Panda Petroleum's lease agreement.

**Agency services** – varies as it is dependent on the service rendered to the community and Council earns 8% commission from the revenue raised.

**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. An amount of R244,7 million (75% of the total equitable share) was received as at the end of February 2019.

### 3.7 Surplus and Deficit by Service Category

SERVICES	ADJUSTED BUDGET 2018/2019			ACTUAL AS AT 28 FEBRUARY 2019		
	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Rates and General Services</b>						
Executive and Council	191	32,141	(31,950)	117	5,838	(5,721)
Finance and Administration	571,031	75,945	495,086	364,334	20,254	344,080
Community and Social Services	19,378	94,092	(74,714)	11,145	59,309	(48,164)
Sport and Recreation	21,565	161,514	(139,949)	2,774	100,910	(98,136)
Public Safety	1,002	75,081	(74,079)	431	49,791	(49,360)
Housing	3,858	18,279	(14,421)	1,075	12,125	(11,050)
Environmental Protection	1,009	11,049	(10,040)	667	6,786	(6,119)
Planning and Development	16,047	91,729	(75,682)	9,887	57,864	(47,977)
Internal Audit	-	6,588	(6,588)	-	2,548	(2,548)
Road Transport	29,336	285,220	(255,884)	9,930	179,488	(169,558)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	-	47,615	(47,615)	-	32,019	(32,019)
Other	5	6,009	(6,004)	2	3,473	(3,471)
<b>Total Rates and General Services</b>	<b>663,422</b>	<b>905,262</b>	<b>(241,840)</b>	<b>400,362</b>	<b>530,405</b>	<b>(130,043)</b>
<b>Airport</b>	<b>736</b>	<b>161</b>	<b>575</b>	<b>-</b>	<b>77</b>	<b>(77)</b>
<b>Trading Services</b>						
Electricity	1,461,431	1,269,773	191,658	954,373	827,061	127,312
Water	518,970	483,725	35,245	346,889	336,891	9,998
Clarified Water	27,220	15,212	12,008	22,482	12,582	9,900
Sewerage	298,226	208,994	89,232	167,196	151,500	15,696
Refuse Removal	149,652	166,260	(16,608)	106,563	85,919	20,644
<b>Total Trading Services</b>	<b>2,455,499</b>	<b>2,143,964</b>	<b>311,535</b>	<b>1,597,503</b>	<b>1,413,953</b>	<b>183,550</b>
<b>Total Service Category</b>	<b>3,119,657</b>	<b>3,049,387</b>	<b>70,270</b>	<b>1,997,865</b>	<b>1,944,435</b>	<b>53,430</b>

The table above sets out the surplus and deficit for each service category. It bears noting 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 75% of equitable share have been received to date.**

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 1277516** 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	8,350,987	147,618	124,760	11,554,700	20,178,065
Business	233,120,572	7,072,822	6,904,587	59,847,775	306,945,756
Households	65,256,996	5,961,320	6,301,207	119,007,942	196,527,465
Other	3,916,258	227,545	427,521	7,951,263	12,522,587
<b>Total</b>	<b>310,644,813</b>	<b>13,409,305</b>	<b>13,758,075</b>	<b>198,361,680</b>	<b>536,173,873</b>
<b>%</b>	<b>57.94%</b>	<b>2.50%</b>	<b>2.56%</b>	<b>37.00%</b>	

### FINANCIAL REPORTING ON INCOME / DEBT

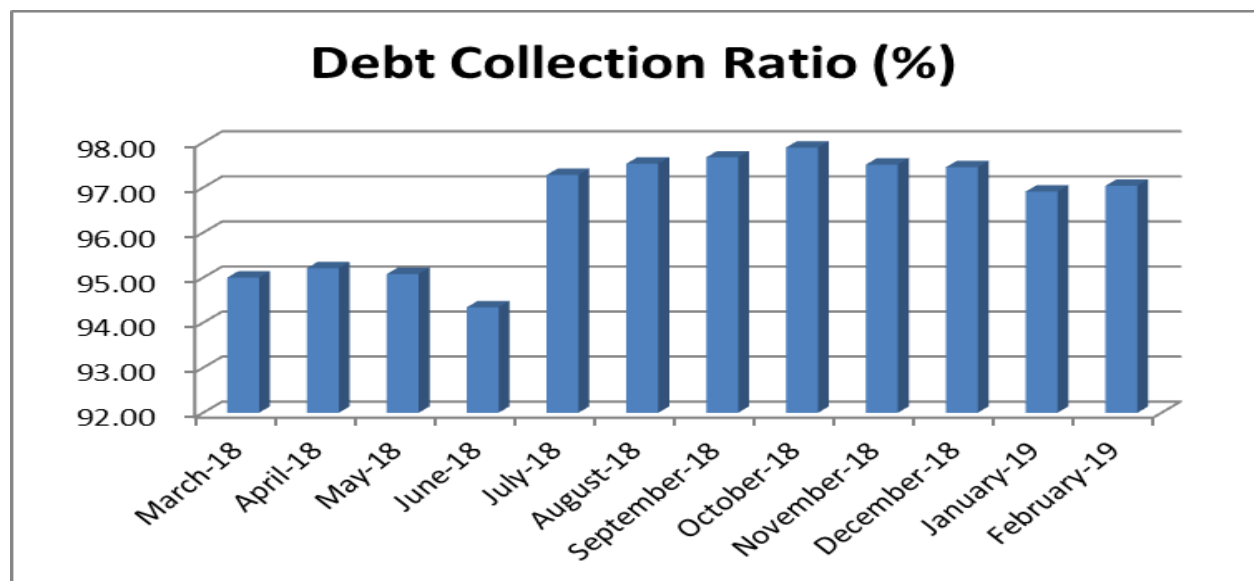
Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform Treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National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

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

<b>Month</b>	<b>Debt Collection Ratio (%)</b>
February-19	97.04
January-19	96.91
December-18	97.45
November-18	97.51
October-18	97.89
September-18	97.67
August-18	97.53
July-18	97.28
June-18	94.34
May-18	95.08
April-18	95.21
March-18	95.00



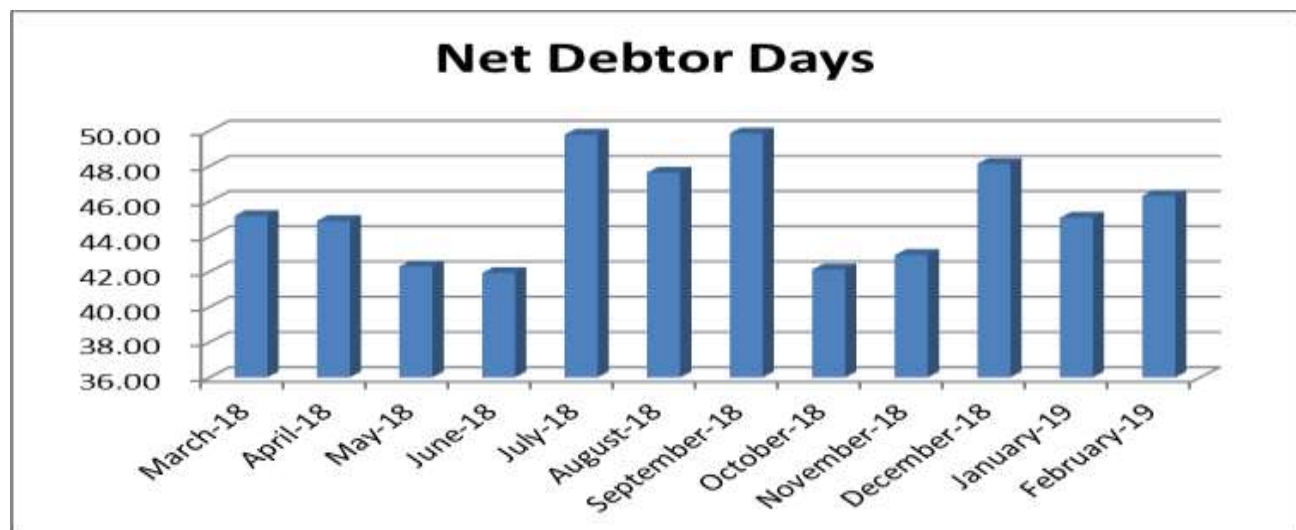
➤ **Net Debtors Days**

This ratio reflects the collection period. The 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.

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

<b>Month</b>	<b>Net Debtor Days</b>
February-19	46.31
January-19	45.06
December-18	48.13
November-18	42.95
October-18	42.12
September-18	49.86
August-18	47.63
July-18	49.79
June-18	41.92
May-18	42.30
April-18	44.89
March-18	45.17

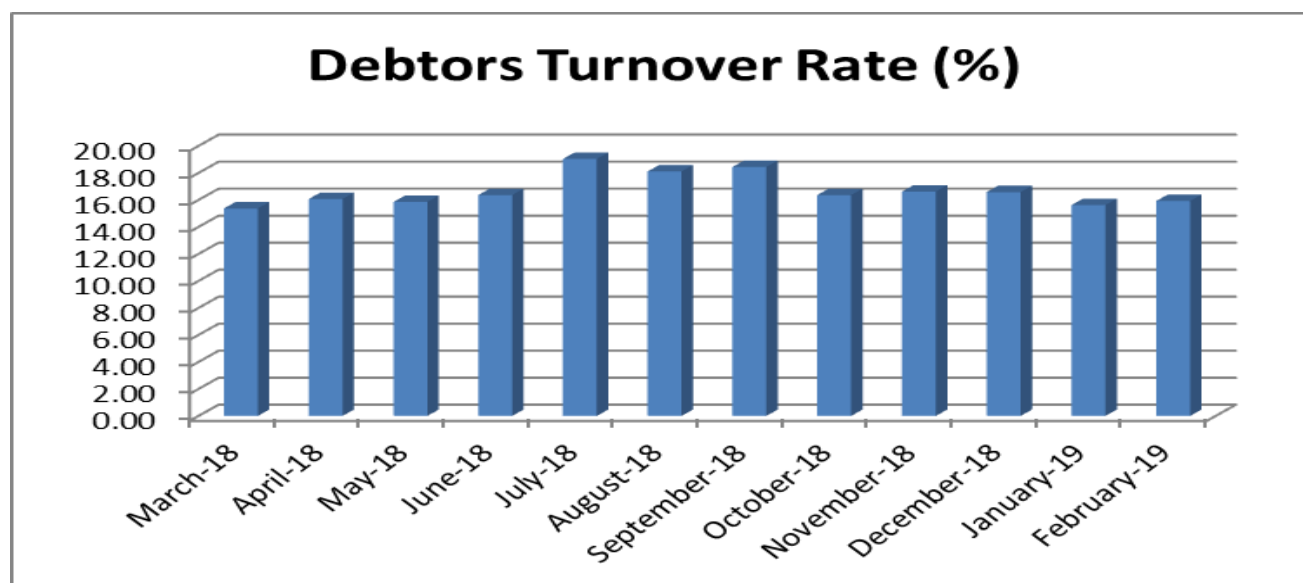




## Debtor's Turnover Rate

The norm is to be below 20%:

Month	Debtors Turnover Rate (%)
February-19	15.92
January-19	15.62
December-18	16.58
November-18	16.62
October-18	16.36
September-18	18.44
August-18	18.11
July-18	19.04
June-18	16.36
May-18	15.85
April-18	16.07
March-18	15.37



## **Top Ten Business Debts**

Summary of Top 10 Debtors				
Debtor No	Name	Date	91 Days +	Total
1854904	BASFOUR 3721 (PTY) LTD	December 2011	22,377,589.88	22,377,589.88
2289941	PANDA PETROLEUMS	September 2015	5,000,658.80	5,005,043.82
2247701	BEST CUT MEAT (PTY) LTD	August 2017	3,387,878.16	3,766,176.69
416383	RIVER ROCK INVEST (PTY) LTD	June 2009	2,444,320.05	2,696,949.77
392020	RIVER ROCK INVEST (PTY) LTD	October 2010	1,309,063.83	2,183,582.27
1675831	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	1,261,196.24	6,173,338.27
1088329	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	1,010,426.69	6,227,562.74
2368872	CADRE PROPERTIES PTY LTD	January 2017	863,853.37	1,011,957.31
1632348	KING CETSWAYO DISTRICT MUNICIPALITY	March 2018	854,471.17	2,295,558.26
1592230	CALANDRA TRADING 592 CC	September 2017	740,221.94	985,139.31
			<b>39,249,680.13</b>	<b>52,722,898.32</b>

### **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. The advocate has provided a summary of the pre-trial processes that must now be completed. It includes several consultations with the relevant officials and witnesses.

#### **Update: February 2019**

There is no further progress top report and the matter is ongoing.

### **2. 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 Deputy Municipal Manager: 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: February 2019**

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

### **3. BEST CUT MEAT (PTY) LTD – in business rescue**

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. 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.

The property was sold by the Business Rescue Practitioner (BRP) on a public auction for R2.5 million subject to confirmation. On request by the BRP and the Chief Financial Officer after consultation with the Municipal Manager indicated that Council would accept an amount of R2 million rand in settlement. This is due to the lengthy process that will follow if the sales do not go through and the company are then obliged to go into liquidation.

The selling price was not acceptable to all preference creditors and a second auction was held.

The sale at that auction is in the process of approval.

### **Update: February 2019**

The matter is still ongoing.

### **4. RIVER ROCK INVESTMENTS (PTY) LTD (2 Accounts)**

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

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

Legal Services advised that on 9 January 2018 that 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: February 2019**

There is no progress to report.

**5. CADRE PROPERTIES**

This debt is in respect of rates for a property in 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 000,00 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: February 2019**

The debtor advised that they will be submitting a new proposal in this regard.

**6. CALANDRA TRADING 592 CC**

This debt is in respect of rates and services for a property in Alton. The matter was handed over to Council's attorneys for collection.

**Update: February 2019**

The debtor has now concluded an arrangement to settle the account in instalments. A first down payment of R300 000 was agreed upon.

**7. KING CETSWHAYO DISTRICT MUNICIPALITY (KCDM)**

The accounts relate to a dispute lodged by KCDM regarding the drought water tariff being charged.

**Update: February 2018**

The matter is ongoing.

## Government Debt

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

Government Departments - Summary of ALL Debt									
Government Department	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
<b>National</b>	3 939 557	21 111	11 606	8 330	-7 799	21 524	1 800 038	1 959 214	7 753 582
<b>Provincial</b>	5 575 627	166 677	275 411	148 937	255 136	463 082	3 875 092	4 495 487	15 255 450
<b>Totals</b>	<b>9 515 185</b>	<b>187 788</b>	<b>287 017</b>	<b>157 267</b>	<b>247 337</b>	<b>484 607</b>	<b>5 675 131</b>	<b>6 454 701</b>	<b>23 009 032</b>
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	3 939 557	21 111	11 606	8 330	-7 799	21 524	816 125	1 487 467	6 297 922
Rural Development & land Reform	0	0	0	0	0	0	983 913	471 747	1 455 660
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	44 931	34 040	23 571	48 307	35 819	55 040	2 129 805	2 093 187	4 464 701
Education	1 953 902	73 558	78 279	64 084	24 078	390 989	981 264	786 184	4 352 337
Human Settlement	80 187	27 863	25 657	26 419	23 762	6 683	249 449	953 966	1 393 984
Department of Transport	156 922	1 641	1 028	1 055	130 947	0	0	0	291 592
Department of Health	3 210 305	29 576	146 878	9 072	40 531	10 370	514 564	662 151	4 623 446
COGTA	0	0	0	0	0	0	0	0	0
Department of Social Welfare	128 094	0	0	0	0	0	0	0	128 094
Department of Agriculture	1 286	0	0	0	0	0	11	0	1 297
SANRAL	0	0	0	0	0	0	0	0	0
Other Organs of State	0-30 Days	31-60 Days	61-90 Days	91 - 120 Days	121 - 150 Days	151 -180 Days	181 Days-1 Year	Over 1 Year	Total
Transnet	2 963 122	319 491	350 387	229 946	97 052	103 124	521 927	467 414	5 052 462
ESKOM	332 687	65 390	36 912	261	791	781	5 082	31 527	473 431
Ingonyama Trust Board	243	0	0	0	0	0	1 461 447	3 858 336	5 320 027
Telkom	182 877	0	-1 004	0	0	0	0	0	181 873
Foskor	43 872 625	0	0	0	0	0	0	0	43 872 625
SA Post Office	11 302	2 563	2 590	2 577	3 020	2 873	21 902	1 880	48 706
Richards Bay IDZ	993 517	0	0	0	0	0	0	0	993 517

NOTES:

OFFICIAL FINAL VERSION

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## Comments Regarding Government Debt

A high level meeting was 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 progress has been made to resolve some of the problematic accounts.

Government officials advised that they currently have budget constraints and cannot pay until the new budget is approved.

A further meeting was held in Richards Bay with Government officials and the outcome was similar to the previous meeting. The departments have no available budget and undertook to settle all outstanding accounts within this financial year. The process is ongoing.

### Update February 2019

The main issue at this stage is the relevant department's budget constraints which are expected to be resolved from April 2019.

### 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 R260 317,95 as per **Annexure AB - DMS 1330582**.

Councillor's debt amounts to R2 867,65 as per **Annexure AC - DMS 1330582**.

## 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	ADJUSTED BUDGET 2018/2019	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2019 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA ADJUSTED BUDGET SPENT
		R	R	R	%
Overtime - Non-structured	31,403,700	20,935,800	17,055,052	3,880,748	81%
Overtime - Structured	22,499,600	14,999,733	13,227,443	1,772,290	88%
Shift Additional Remuneration	3,866,000	2,577,333	2,594,485	(17,152)	101%
<b>TOTAL</b>	<b>57,769,300</b>	<b>38,512,867</b>	<b>32,876,980</b>	<b>5,635,887</b>	<b>85%</b>

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."*

In terms of the approved Overtime Policy, overtime is limited to 10 hours per week. For February 2019, this equates to 4 weeks x 10 hours per week = 40 hours. The Municipal Manager received a request from the Department Community Services to allow the following categories of employees to exceed the maximum overtime hours:

- Lifeguards
- Waste Management
- Traffic Services

The table below shows that the affected employees worked an additional 11 282 hours above the maximum allowed. This equates to an additional expense of R 2,5 million.

FUNCTION DESCRIPTION	OVERTIME AMOUNT	1.5 OVERTIME - ACTUAL HOURS WORKED - NON-STRUCTURED	2 OVERTIME - ACTUAL HOURS WORKED - NON-STRUCTURED	TOTAL HRS - NON-STRUCTURED	1.5 OVERTIME - ACTUAL HOURS WORKED - STRUCTURED	2 OVERTIME - ACTUAL HOURS WORKED - STRUCTURED	TOTAL HRS - STRUCTURED	MAXIMUM HRS ALLOWED PER MONTH	DIFFERENCE	NO OF EMPL
Police Forces, Traffic and Street Parking Control	672 243.21	36.50	36.00	72.50	1 161.00	2 681.00	3 842.00	1 960.00	1 954.50	49
Taxi Ranks	36 268.72	-	-	-	136.00	208.00	344.00	120.00	224.00	3
Solid Waste Removal	1 008 308.72	-	-	-	3 408.00	5 168.00	8 576.00	3 800.00	4 776.00	95
Street Cleaning	834 446.24	-	-	-	3 008.00	4 432.00	7 440.00	3 320.00	4 120.00	83
Public Toilets	42 538.88	-	-	-	112.00	176.00	288.00	80.00	208.00	2
<b>Grand Total</b>	<b>2 593 805.77</b>	<b>36.50</b>	<b>36.00</b>	<b>72.50</b>	<b>7 825.00</b>	<b>12 665.00</b>	<b>20 490.00</b>	<b>9 280.00</b>	<b>11 282.50</b>	<b>232</b>

This request was due to the number of public holidays for the month of December 2018 and was paid in January and February 2019.

During the month of February 2019, the employees in the following functions worked overtime of more than 10 hours per week which is the maximum that can be allowed in terms of Council's revised overtime policy (**DMS 854249**).

The following table sets out the applicable information:

EMP NO	FUNCTION	FUNCTION DESCRIPTION	SALARY SCALE	OCCUPATION	OVERTIME AMOUNT	1.5 OVERTIME - ACTUAL HOURS WORKED - NON-STRUCTURED	2 OVERTIME - ACTUAL HOURS WORKED - NON-STRUCTURED	TOTAL HRS - NON-STRUCTURED	1.5 OVERTIME - ACTUAL HOURS WORKED - STRUCTURED	2 OVERTIME - ACTUAL HOURS WORKED - STRUCTURED	TOTAL HRS - STRUCTURED	MAXIMUM HRS ALLOWED PER MONTH	DIFFERENCE	NOTES
2007052	FX015001002003	Sewerage - Sewerage Network	4	HANDYMAN	5 959.44	28.00	16.00	44.00	-	-	-	40.00	4.00	a
100555	FX015001002003	Sewerage - Sewerage Network	9	PLUMBER/SENIOR	10 338.31	28.00	16.00	44.00	-	-	-	40.00	4.00	b
2016132	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	4 808.31	28.00	16.00	44.00	-	-	-	40.00	4.00	c
2007124	FX015001002003	Sewerage - Sewerage Network	6	SPECIAL WORKSMAN	7 900.12	37.00	4.00	41.00	-	-	-	40.00	1.00	d
2008011	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	4 941.53	37.00	4.00	41.00	-	-	-	40.00	1.00	e
2016033	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	4 588.51	37.00	4.00	41.00	-	-	-	40.00	1.00	f
2011081	FX015001002003	Sewerage - Sewerage Network	4	HANDYMAN	5 421.56	27.00	16.00	43.00	-	-	-	40.00	3.00	g
2005109	FX015001002003	Sewerage - Sewerage Network	3	GENERAL WORKER GR I	4 260.96	32.00	12.00	44.00	-	-	-	40.00	4.00	h
<b>NOTES:</b>														
a	Employee 2007052 worked 5hrs x 1 Sunday + 3 hrs x 1 Sunday = 12 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 1 Sunday + 1 hr x 1 Sunday = 16 hours plus 28 hours at 1.5 = 44 hours paid BUT only 40 hours worked													
b	Employee 100555 worked 5hrs x 1 Sunday + 3 hrs x 1 Sunday = 12 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 1 Sunday + 1 hr x 1 Sunday = 16 hours plus 28 hours at 1.5 = 44 hours paid BUT only 40 hours worked													
c	Employee 2016132 worked 5hrs x 1 Sunday + 3 hrs x 1 Sunday = 12 hours but Sunday time is rounded up to 8 hrs therefore 3 hrs x 1 Sunday + 1 hr x 1 Sunday = 16 hours plus 28 hours at 1.5 = 44 hours paid BUT only 40 hours worked													
d	Employee 2007124 worked 3hrs x 1 Sunday = 3 hours but Sunday time is rounded up to 8 hrs therefore 1 hrs x 1 Sunday = 4 hours plus 37 hours at 1.5 = 41hours paid BUT only 40 hours worked													
e	Employee 2008011 worked 3hrs x 1 Sunday = 3 hours but Sunday time is rounded up to 8 hrs therefore 1 hrs x 1 Sunday = 4 hours plus 37 hours at 1.5 = 41hours paid BUT only 40 hours worked													
f	Employee 2016033 worked 3hrs x 1 Sunday = 3 hours but Sunday time is rounded up to 8 hrs therefore 1 hrs x 1 Sunday = 4 hours plus 37 hours at 1.5 = 41hours paid BUT only 40 hours worked													
g	Employee 2011081 worked 6hrs x 1 Sunday + 3 hrs x 1 Sunday = 13 hours but Sunday time is rounded up to 8 hrs therefore 2 hrs x 1 Sunday + 1 hr x 1 Sunday = 16 hours plus 27 hours at 1.5 = 43 hours paid BUT only 40 hours worked													
h	Employee 2005109 worked 2hrs x 1 Sunday + 6 hrs x 1 Sunday = 8 hours but Sunday time is rounded up to 8 hrs therefore 2 hrs x 2 Sundays = 12 hours plus 32 hours at 1.5 = 44 hours paid BUT only 40 hours worked													



## 4.2 Volume of Transfers

There were no transfers for the month of February 2019, all transfers prior to the adjustment budget were approved in the adjustment budget. Transfer of funds will resume on the 1 March 2018.

## 5. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1330581**) 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 28 February 2019.

### 7. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 28 February 2019.

## 8. **INVESTMENT PORTFOLIO ANALYSIS**

Refer to supporting table SC5 - Investment Portfolio (**Annexure O**) for the month ended 28 February 2019.

## 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 28 February 2019.

## 10. **COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS**

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 28 February 2019.

## 11. **CAPITAL PROGRAMME PERFORMANCE**

Refer to the following tables for the month ended 28 February 2019:

- ❑ 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 1333824** (**Annexure AD**).

### **ENVIRONMENTAL IMPLICATIONS**

None

### **FINANCIAL IMPLICATIONS**

This has been covered in details 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.

## **DISCUSSION HELD BY THE FINANCIAL SERVICES PORTFOLIO COMMITTEE ON 26 MARCH 2019**

A lengthy discussion ensued and the following concerns were raised relating inter alia to:

- Clarity sought as to whether the comments relating to grant balances under Housing Operating Account means that the municipality has completed upgrading hostels.
- It was noted that Materials for Maintenance of Rural Roads has exceeded the pro-rata budget. An enquiry was made whether it was possible to budget more for this item as the demands for maintenance of rural roads is high.
- Concern was raised regarding the low capital expenditure which was, as at February 2019 sitting at only 43,54%, taking into account that the financial year was approaching.
- Concern was raised regarding the surplus that was sitting at R53 429 213 as at February 2019 and with few months outstanding, the operating budget would be overspent by a huge amount. A question was asked as to why frequently by the end of the financial year, the surplus account becomes a deficit.
- It was noted that the outsourced services: sewerage services under contracted services have exceeded the pro-rata budget. A report was requested detailing as to what types of services are provided under this item as the spending seemed to be high and why these services could not be provided internally.
- Concerns were raised regarding the sustainability of the surplus account under the operating budget as well as the working capital under cash flow situation which was spent on capital expenditure. A question was asked as to what guarantee there was that COGTA will refund monies utilised for the MIG related projects.

The Chief Financial Officer advised that comments pertaining to the Housing Operating Account do not mean that renovation of hostels has been completed. He mentioned that the relevant department was currently repairing roofs at the hostels. It was highlighted that the section shows the grant gazetted to be received against the expenditure. Of particular importance, is for Councillors to note that the grant on this specific item is normally less than the expenditure on housing.

He advised that the issue of rural roads was complicated in the sense that by virtue of the fact the municipality owns access roads and the rest belongs to the Department of Transport. The challenge starts when these roads are not properly maintained and they then become a burden to the municipality.

With regards to a concern raised on the low capital expenditure as well as to what happened or would happen, the Chief Financial Officer indicated that he would not have a direct answer to the question.

The Chief Financial Officer noted a comment regarding the surplus account under operating budget as well as the report requested on the outsourced services: sewerage services under contracted services.

The Chief Financial Officer explained that budgeting is based on projections and that is why there is a section in the law which states that the Accounting Officer of the municipality must do a mid-year review to review the projections for any possible adjustments if so required. It was explained as to what projections were as at February 2019 in terms of the operating budget and at the end of June 2019, the surplus or deficit will be clearly reflected.

It was emphasised that the cash flow situation of the municipality was very sound in such a way that the projects which were supposed to be funded from the loan which was not taken up were actually funded from the working capital.

It was confirmed that once the grant has been gazetted in terms of the Revenue Act, COGTA becomes liable for payments thereof.

The Chairperson expressed his serious concern regarding the low capital budget spending which was not improving despite possible solutions provided to Administration on how best the situation can be addressed. According to the MIG report to be presented at a meeting in Durban, the municipality was position 34, two positions from the bottom and is rated as a medium performer. As a result, municipalities who performed well will receive additional funding from those who did not spend accordingly.

An enquiry was made regarding the implementation of the programme initiated of cascading down of performance to lower level employees. In this regard, a progress report was requested.

#### **RECOMMENDED THAT:**

the financial position of the uMhlathuze Municipality as at 28 February 2019, 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 1330581)**, be noted.