

9580
FINANCIAL REPORTING AS AT 31 JULY 2014

The report served before the Financial Services Portfolio Committee on 28 August 2014 and as the meeting did not constitute a quorum the report is referred to the Executive Committee for consideration.

PURPOSE

To submit to Council the financial position of the uMhlathuze Municipality as at 31 July 2014, as required in terms of the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

IDP STRATEGY AND OBJECTIVES

DEVELOPMENT STRATEGY 5: SOUND FINANCIAL MANAGEMENT	
Goal	Objective
1. Compliance with financial legislation and policies	<ul style="list-style-type: none"> • Ensure GRAP compliance • Ongoing review of SCM policies and procedures • Ongoing internal and external capacity building in Supply Chain Management and Budgeting Models
2. Sustainable Financial Management	<ul style="list-style-type: none"> • Improve internal communication on budget matters • Maintenance of fixed asset register • Credit control and debt collection • Compliant internal controls • Compliant grant reporting • Obtain targeted cash-backed statutory reserves • Development and appropriate training and assistance to employees • Identify and redress water and electricity tampering

BACKGROUND

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. National Treasury has issued MFMA Circular No 51 (**DMS 633560**) in which this prescribed format has been set out.

Furthermore, National Treasury has 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 formats 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.

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 July 2014 is included under **Annexures Z and AA (DMS 983609)**.

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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1. MAYOR'S REPORT

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;*
- (b) a summary of any financial problems or risks facing the municipality or any such entity; and*
- (c) any other information considered relevant by the Mayor.”*

Monthly Report - July 2014

The monthly budget statement summary (Table C1) for the month of July 2014 (year to date actual), shows a surplus of R20,8 million. This implies that the municipality has been able to raise its budgeted income and has successfully collected such billed income as well.

It is important to note that Council is at the beginning of the financial year and capital expenditure is only R6,8 million (1,63%). At the end of July 2014 an amount of R20,4 million for orders have been placed, but payment will only be made in the following month.

The report is noted with appreciation and it is requested that administration continues to report progress on Council's finances

2. RESOLUTIONS

Refer to the recommendations contained in this report.

3. EXECUTIVE SUMMARY

3.1 Operating Budget

The following table represents an executive summary for the financial period ended 31 July 2014:

DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET (YTD)	ACTUAL JULY 2014 (YTD)	TARGET ACHIEVED
	R' 000	R, 000	R' 000	%
Revenue (excluding capital grants)	2 370 558 500	197 546 542	188 321 560	95%
Expenditure	2 363 247 300	196 937 275	167 649 943	85%
	7311 200	609 267	20 671 617	

As can be seen from the table above, Actual Surplus for the month ended 31 July 2014 is higher than the Budgeted Surplus.

Actual revenue to Budgeted revenue has not exceeded the budget. Actual expenditure to Budgeted expenditure is within budgetary limits.

3.2 Cash Flow Situation

Details of Bank Balances

	CASH ON HAND AT 31 JULY 2014	CASH OBLIGATIONS	POLICY TARGET	(SHORTFALL) / SURPLUS AT 31 JULY 2014
	R' 000	R' 000	R' 000	R' 000
Conditional Grants and unspent loans	181 911	181 911	181 911	0
Working Capital	379 397	191 729	383 458	(4 061)
Total (incl. investments)	561 308	373 640	565 369	(4 061)

Councils 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 sits currently at 1,98:1 (379 397/191 729).

MFMA Circular 71:

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

The calculation for the above ratio is as follows: [(186 308 – 132 392) + 375 000) / (2 363 247 -182 390 – 3 050)/12] which currently sits at 2,36:1.

It therefore needs to be noted that both in terms of Council's Policy and the National Treasury MFMA Circular 71, the City of uMhlathuze has suitable cash coverage.

The table below reflects the grants gazetted and received as at 31 July 2014 from National and Provincial Treasury:

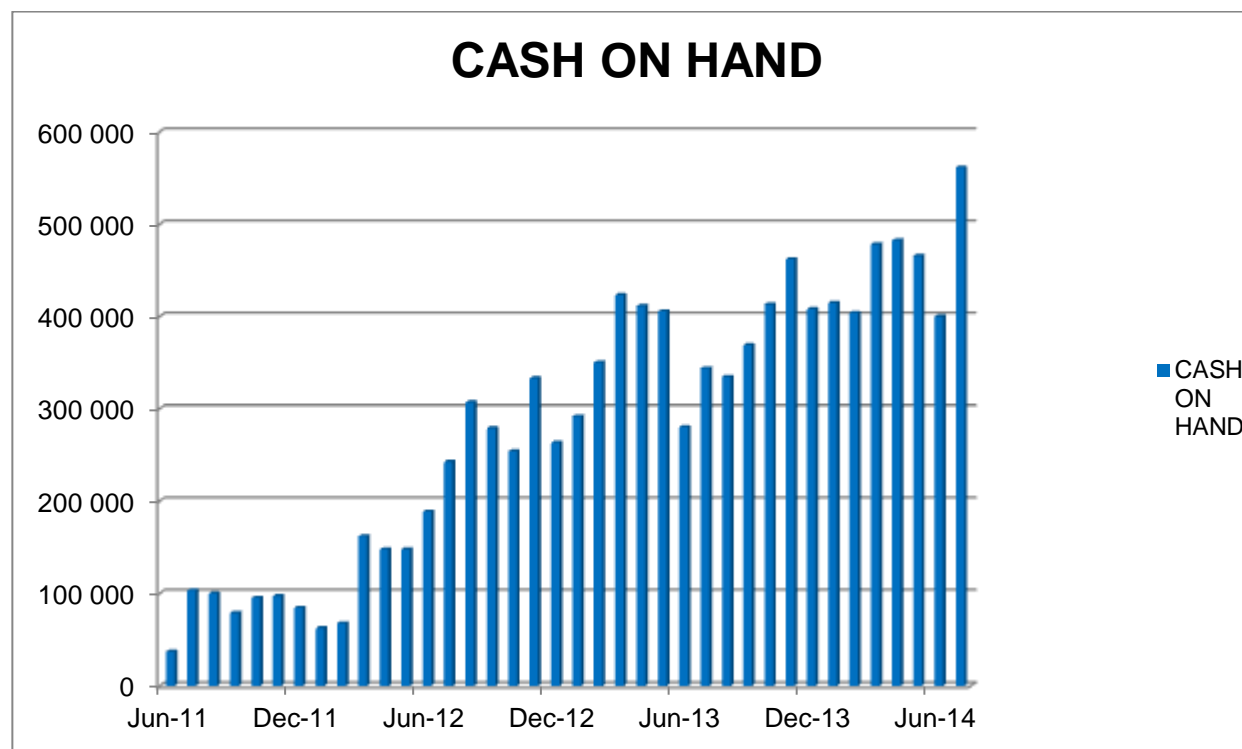
DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2014	TOTAL TO BE RECEIVED AS AT 31/07/2014	AMOUNT RECEIVED AS AT 31/07/2014	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/07/2014	% SPENT	COMMENTS
NATIONAL TREASURY							
Equitable Share	81 066 000	81 066 000	81 066 000	-	81 066 000	100%	
Municipal Infrastructure Grant	30 377 000	30 377 000	30 377 000	-	-	0%	
Municipal Systems Improvement Grant	-	-	-	-	-	0%	
Financial Management Grant	1 600 000	1 600 000	1 600 000	-	78 442	5%	
Municipal Water Infrastructure Grant	-	-	-	-	-	0%	
Water Services Operating Subsidy	-	-	-	-	-	0%	
Integrated National Electrification Grant	5 775 000	5 775 000	5 775 000	-	8 146 829	141%	Expenditure was incurred in the 2013/2014 financial year.
Rural Households Infrastructure Grant	2 000 000	2 000 000	-	2 000 000	-	0%	Advised by National Treasury funds to be received in August 2014.
Extended Public Works Programme	-	-	-	-	8 729	0%	
Infrastructure Skills Development Grant	4 036 000	4 036 000	4 036 000	-	305 656	8%	The 2013/2014 grant was over-spent by R989 400. This expenditure has been recovered from the 2014/2015 allocation.
TOTAL NATIONAL TREASURY GRANTS	124 854 000	124 854 000	122 854 000	2 000 000	89 605 655	73%	
PROVINCIAL TREASURY							
Provincialisation of Libraries	-	-	-	-	1 272 638	0%	The SLA has not been finalised. Grant funding expected in August 2014. Expenditure shown is the total operating cost of the Libraries for the period.
Community Library Services Grant	-	-	-	-	41 516	0%	The SLA has not been finalised. Grant funding expected in August 2014. Expenditure shown is the total operating cost of the Libraries for the period.

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2014	TOTAL TO BE RECEIVED AS AT 31/07/2014	AMOUNT RECEIVED AS AT 31/07/2014	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/07/2014	% SPENT	COMMENTS
PROVINCIAL TREASURY							
Housing Operating Account	1 073 120	1 073 120	1 073 120	-	608 522	57%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	-	-	-	-	90 024	0%	Grant funding expected in August 2014. Expenditure shown is the total operating cost of the Museum.
Clinic Services	-	-		-	1 864 799	0%	The SLA has not been finalised. Grant funding expected in August 2014. Expenditure shown is the total operating cost of the clinics for the period.
TOTAL PROVINCIAL TREASURY GRANTS	1 073 120	1 073 120	1 073 120	-	3 877 499	361%	
TOTAL GRANTS AND SUBSIDIES	125 927 120	125 927 120	123 927 120	2 000 000	93 483 154	75%	

Bank Balance Trend since June 2011

Table:

	Jun-11	Apr-13	May-13	Jun-13	July-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	June-14	July-14
	R' 000	R' 000	R' 000	R' 000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Cash On Hand	37 142	411 345	405 663	280 396	343 845	334 581	368 944	412 940	462 070	408 143	414 642	404 080	478 000	482 637	465 696	399 897	561 308



The cash flow situation is still a critical aspect for the municipality and is being constantly monitored. As mentioned previously the situation is gradually improving. However, the liquidity ratios have almost reached the acceptable standard norms but still need to be monitored on a continuous basis.

3.3 Capital Budget Summary

FUNCTION	ADOPTED BUDGET 2014/2015	ACTUAL JULY 2014 (YTD)	% OF PRO- RATA BUDGET
Executive and Council	211 300	-	0%
Budget and Treasury Office	5 463 900	-	0%
Corporate Services	47 487 200	-	0%
Community and Social Services	26 937 700	2 920	0.01%
Sport and Recreation	32 162 000	105 289	0.33%
Public Safety	27 662 500	82 047	0.30%
Housing	22 441 700	608 166	2.71%
Health	8 115 000	-	0%
Planning and Development	168 000	-	0%
Road Transport	20 607 100	-	0%
Electricity	56 030 600	4 730 879	8.44%
Water	88 124 800	1 309 355	1.49%
Waste Water Management (Sanitation)	79 451 700	-	0%
Waste Management (Solid Waste)	4 998 300	-	0%
TOTAL	419 861 800	6 838 656	1.63%

The above table represents Capital Expenditure incurred as at 31 July 2014 (1,63%).

The table below sets out the capital budget and expenditure for the function, Community and Social Services and Public Safety.

DESCRIPTION	ADOPTED BUDGET 2014/2015	ACTUAL JULY 2014 (YTD)	% OF PRO- RATA BUDGET
Cemetaries	2 100 000	2 920	0.14%
Community Halls	15 430 800	-	0.00%
Libraries	9 387 900	-	0.00%
Museums	19 000	-	0.00%
COMMUNITY AND SOCIAL SERVICES	26 937 700	2 920	0.01%
Fire	16 538 900	-	0.00%
Police	64 000	82 047	128.20%
Street Lighting	11 059 600	-	0.00%
PUBLIC SAFETY	27 662 500	82 047	0.30%

The total adopted capital budget funding structure is as follows:

SOURCE OF FUNDING	ADOPTED BUDGET 2014/2015	ACTUAL JULY 2014 (YTD)	% OF PRO- RATA BUDGET
External Loans	144 738 000	3 421 167	2.36%
Capital Replacement Reserve	103 911 300	190 257	0.18%
MIG	88 106 100	1 309 355	1.49%
Other National Government Grants	31 350 000	1 052 937	3.36%
Provincial Government Grants	37 764 800	608 166	1.61%
Public Contributions	11 182 000	256 775	2.30%
Reserves	2 809 600	-	0.00%
TOTAL	419 861 800	6 838 657	1.63%

The table below reflects a list of all tenders awarded in July 2014:

Tender Number	RPT Number	Project Description	Date Awarded	Amount (excl VAT)	Vote Number	Budget
				R		R
8/2/1/832	155846	Establishment of a Vulindlela flea market site on Erf 179 and the road reserve adjacent to Vulindlela Business Park and Mfundo Road	16/07/2014	R1 300 per Month	022/254/A2	1 990 500
8/2/1/945 A	156428	Alienation of Erf 16585 commercial 3 Central Business District, Richards Bay by public tender	16/08/2014	4 921 053	145/441/206	0
8/2/1/968	156079	Alienation of Erven 7427, 7428 and 7436 Meerensee, Richards Bay by public tender for the development of an integrated neighborhood centre by a single entity	16/08/2014	6 764 605	145/441/206	0
8/2/1/854	156142	Rehabilitation of Tanner Road	16/08/2014	6 504 342	222/672/11	9 980 900
8/2/1/892	155496	Panel of Attorneys – Invitation: Interested Parties to Register on the panel of attorneys of the City of uMhlathuze for the provision of Legal and related services for a period of three years	16/08/2014		030/088/04 030/088/05 030/088/06 030/088/07	

3.4 Expenditure per Category

EXPENDITURE BY TYPE	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET (YTD)	ACTUAL JULY 2014 (YTD)	% OF PRO- RATA BUDGET
Employee related costs	583 140 900	48 595 075	46 370 380	95%
Remuneration of Councillors	23 176 400	1 931 367	1 813 161	94%
Debt Impairment	3 050 000	254 167	254 167	100%
Depreciation and Offsetting of depreciation	182 389 600	15 199 133	15 199 125	100%
Finance Charges	77 614 000	6 467 833	6 467 833	100%
Bulk Purchases - Electricity	1 006 862 700	83 905 225	64 799 853	77%
Bulk Purchases - Water	89 639 700	7 469 975	10 357 259	139%
Other Materials	34 702 200	2 891 850	1 245 194	43%
Contracted Services	159 668 900	13 305 742	7 649 490	57%
Transfers and grants	13 749 100	1 145 758	536 841	47%
Other Expenditure	189 253 800	15 771 150	12 956 640	82%
TOTAL	2 363 247 300	196 937 275	167 649 943	85%

The above table represents operating expenditure per category incurred as at 31 July 2014.

Bulk Purchases – Electricity: Electricity purchases are higher in July and August due to the increase tariff charged by Eskom in the winter months. Tata Steel did not operate during the month of July 2014. It is also anticipated that this will continue to the end of August 2014. Thus, the under expenditure experienced on Bulk Purchases – Electricity.

Bulk Purchases – Water: A surcharge on Water amounting to R2 million was charged by Mhlathuze Water for water purchased as Council extracted more water than normal.

3.5 Revenue per Category

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

REVENUE BY SOURCE	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET (YTD)	ACTUAL JULY 2014 (YTD)	% OF PRO- RATA BUDGET
Rates	314 000 000	26 166 667	25 208 242	96%
Service Charges – Electricity revenue	1 385 000 000	115 416 667	114 465 313	99%
Service Charges – Water revenue	204 600 000	17 050 000	14 972 900	88%
Service Charges – Sanitation revenue	78 000 000	6 500 000	6 336 698	97%
Service Charges – Refuse revenue	62 000 000	5 166 667	5 281 032	102%
Service Charges – Other revenue	12 561 200	1 046 767	1 009 987	96%
Rental of facilities and equipment	8 233 800	686 150	1 251 518	182%
Interest earned – external investments	10 605 000	883 750	(90 520)	-10%
Interest earned – outstanding debtors	1 542 000	128 500	113 256	88%
Fines	8 877 200	739 767	801 893	108%
Licences and permits	1 727 700	143 975	152 113	106%
Agency services	6 350 000	529 167	590 598	112%
Operating Grants and Subsidies	260 508 600	21 709 050	17 066 666	79%
Other Revenue	16 553 000	1 379 417	1 161 864	84%
TOTAL	2 370 558 500	197 546 542	188 321 560	95%

The above table represents operating revenue per category as at 31 July 2014.

Service Charges – Water Revenue: A drop in consumption in July 2014 has resulted in the reduction in billing compared to the same period in the previous financial year.

Service Charges – Electricity Revenue: Actual revenue to Pro-rata Budget should be higher than 100% due to the higher tariff charged in July and August 2014 by Eskom. However, there has been a drop in consumption due to the non-operations of Tata Steel as evident in the purchases figures. It is also anticipated that this non-operation will continue to the end of August 2014.

3.6 Surplus and Deficit by Service Category

SERVICE CATEGORY	ADOPTED BUDGET 2014/2015			ACTUAL AS AT 31 JULY 2014		
	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	165 300	414 200	(248 900)	13 900	3 343 276	(3 329 376)
Budget and Treasury Office	335 480 400	1 348 600	334 131 800	25 820 309	(2 267 965)	28 088 274
Corporate Services	8 671 000	50 241 500	(41 570 500)	498 181	3 378 607	(2 880 426)
Community and Social Services	9 764 500	49 704 564	(39 940 064)	259 969	3 434 337	(3 174 368)
Sport and Recreation	2 310 600	117 103 688	(114 793 088)	524 867	8 564 456	(8 039 589)
Public Safety	9 727 300	113 527 700	(103 800 400)	885 788	8 147 079	(7 261 291)
Housing	8 226 100	15 312 900	(7 086 800)	82 187	1 103 101	(1 020 914)
Health	12 166 400	37 705 948	(25 539 548)	-	2 684 520	(2 684 520)
Planning and Development	1 411 800	38 151 300	(36 739 500)	153 649	4 811 604	(4 657 955)
Road Transport	10 883 500	124 274 000	(113 390 500)	905 875	8 271 092	(7 365 217)
Water	2 505 350	5 617 050	(3 111 700)	-	335 964	(335 964)
Waste Water Management (Sanitation)	2 505 350	7 329 050	(4 823 700)	-	423 642	(423 642)
Total Rates and General Services	403 817 600	560 730 500	(156 912 900)	29 144 725	42 229 713	(13 084 988)
Airport	441 300	902 700	(461 400)	-	52 150	(52 150)
Trading Services						
Electricity	1 392 658 000	1 246 892 800	145 765 200	114 974 402	83 300 066	31 674 336
Water	287 304 800	318 264 600	(30 959 800)	21 003 376	24 884 412	(3 881 036)
Clarified Water	15 250 000	15 107 800	142 200	644 504	1 281 657	(637 153)
Sewerage	167 811 800	124 756 100	43 055 700	13 827 151	8 683 926	5 143 225
Refuse Removal	103 275 000	96 592 800	6 682 200	8 727 402	7 218 021	1 509 381
Total Trading Services	1 966 299 600	1 801 614 100	164 685 500	159 176 835	125 368 082	33 808 753
Total Service Category	2 370 558 500	2 363 247 300	7 311 200	188 321 560	167 649 945	20 671 615

NOTES:

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The table above sets out the surplus and deficit for each service category. It is important to note that although all the trading services namely Electricity, Water, Sewerage and Refuse Removal are supposed to be profitable, only Electricity, Sewerage and Refuse Removal Service are making surpluses.

As part of Council's revenue enhancement policy approved in July 2013, a considerable effort needs to be made to improve the surplus for the remaining trading services by reducing expenditure or increasing revenue.

The main aim of this table is to provide information to departments in order for them to manage their respective services and ensure that revenue and expenditure is in line with budget expectations.

3.7 Debtors Age Analysis

➤ Debtors age analysis by category

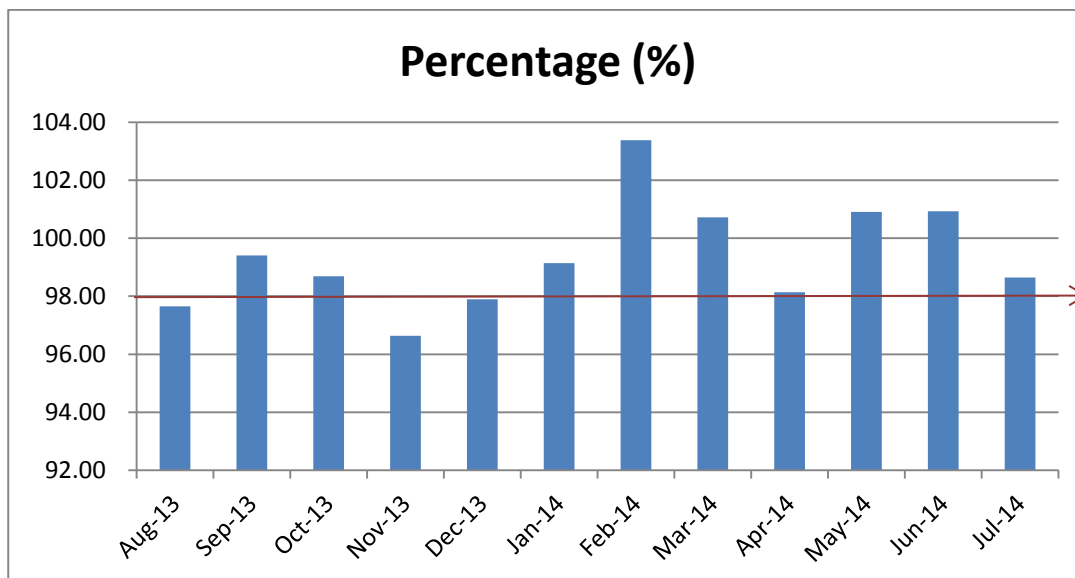
DEBTORS AGE ANALYSIS BY CATEGORY	0 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	OVER 90 DAYS	TOTAL
	R	R	R	R	R
Government	21 651 887	193 859	96 349	1 762 748	23 704 843
Business	154 064 386	1 959 870	837 186	32 188 014	189 049 456
Households	35 847 087	1 890 683	1 758 917	35 943 547	75 440 234
Other	4 563 197	1 398 797	405 189	10 872 061	17 239 244
Total	216 126 557	5 443 209	3 097 641	80 766 370	305 433 77
%	70	2	1	26	100

➤ **Debt Collection Rate**

The debt collection rate for the previous 12 months is as follows:

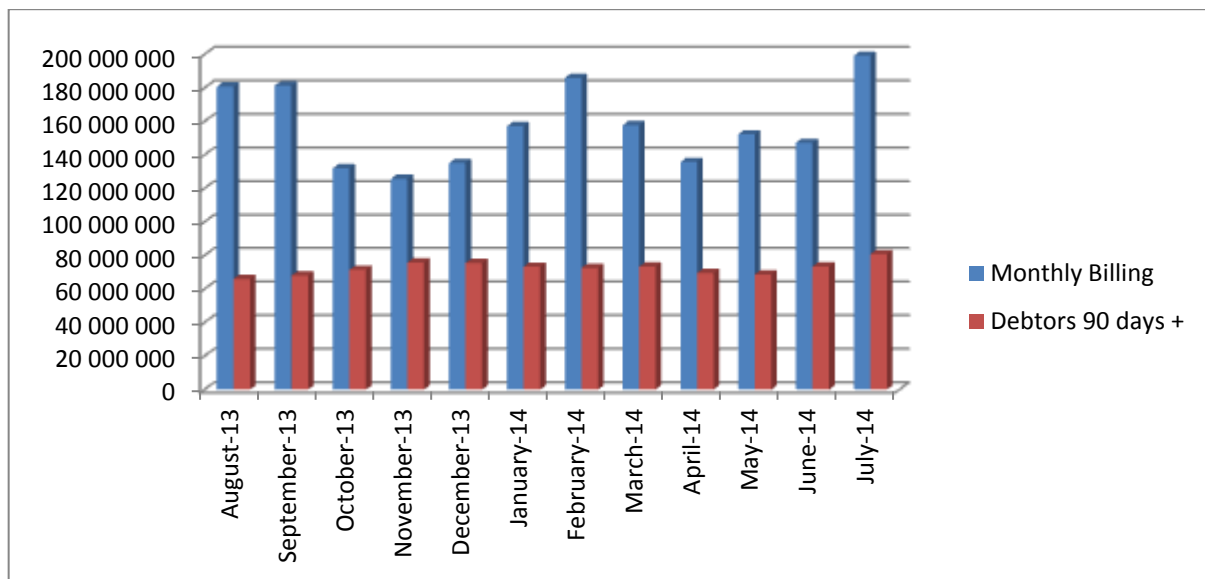
The red line in the graph is the required performance indicator.

DEBT COLLECTION RATE PER MONTH	PERCENTAGE %
August 2013	97.65
September 2013	99.40
October 2013	98.69
November 2013	96.64
December 2013	97.89
January 2014	99.14
February 2014	103.38
March 2014	100.72
April 2014	98.14
May 2014	100.91
June 2014	100.93
July 2014	98.64



➤ **Monthly Billing Compared to Total Debtors 90 Days +**

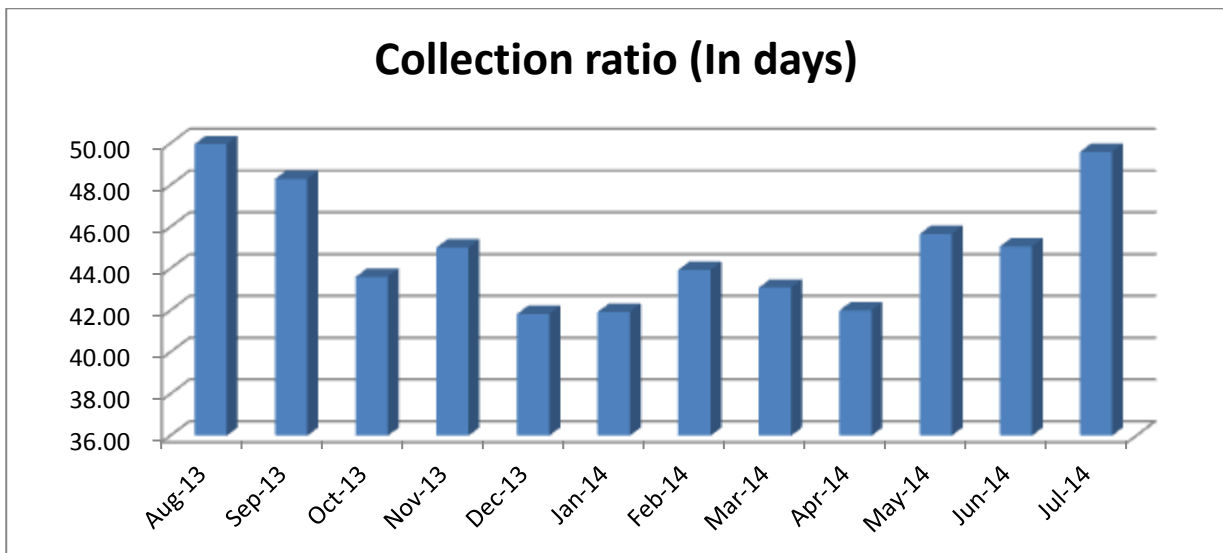
MONTH	MONTHLY BILLING	DEBTORS 90 DAYS +	PERCENTAGE %
August 2013	180 768 531	66 033 333	36.53%
September 2013	181 395 385	68 031 843	37.50%
October 2013	132 113 815	71 455 602	54.09%
November 2013	125 825 942	75 809 769	60.25%
December 2013	135 287 435	75 500 566	55.81%
January 2014	157 178 445	73 297 807	46.63%
February 2014	186 009 773	72 603 303	39.03%
March 2014	157 793 152	73 400 699	46.52%
April 2014	135 785 677	69 584 920	51.25%
May 2014	152 315 415	68 741 436	45.13%
June 2014	147 236 509	73 400 699	49.85%
July 2014	199 251 720	80 766 372	40.53%



➤ **Debt Collection Rate**

The debt collection ratio in days should be below 60 days. If the ratio is at 60 days it means that your debt older than 30 days is equal to your monthly billing.

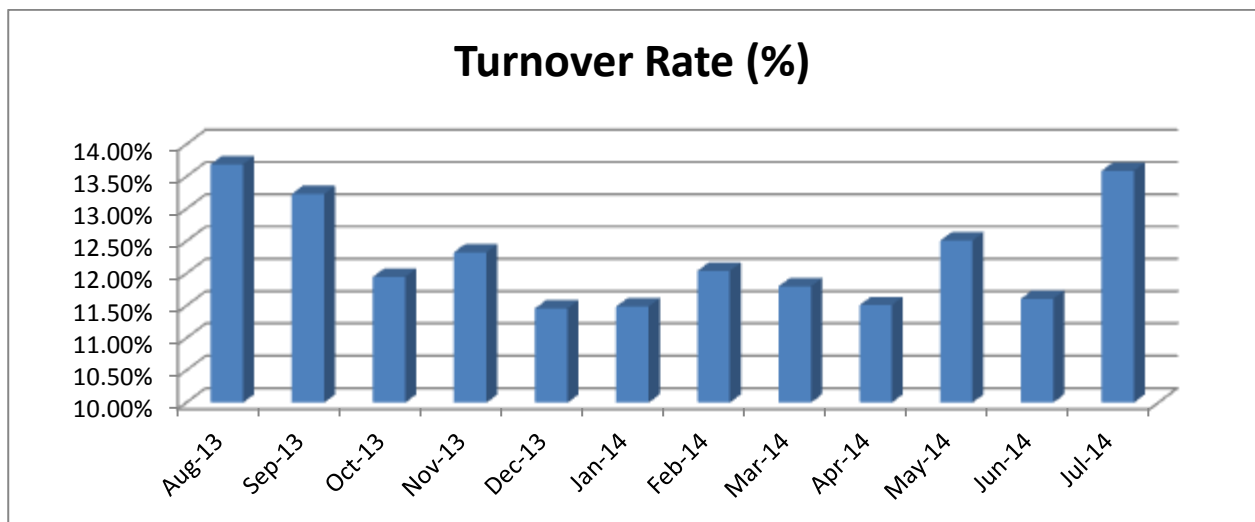
MONTH	COLLECTION IN DAYS
July 2014	49.59
June 2014	45.06
May 2014	45.66
April 2014	42.00
March 2014	43.09
February 2014	43.94
January 2014	41.93
December 2013	41.83
November 2013	45.01
October 2013	43.61
September 2013	48.30
August 2013	49.96



➤ **Turnover Rate of Debtors (%)**

In terms of the key performance indicators, the turnover rate should be below 20%. If everybody in town pays their debt fully, the turnover rate will be 8.33%. Council's turnover rate is listed below and it is better than the required key performance indicator.

MONTH	TURNOVER RATE
July 2014	13.59%
June 2014	11.61%
May 2014	12.51%
April 2014	11.51%
March 2014	11.80%
February 2014	12.04%
January 2014	11.49%
December 2013	11.46%
November 2013	12.33%
October 2013	11.95%
September 2013	13.23%
August 2013	13.69%



➤ **Summary of Credit Control Technical Actions Performed**

In terms of the key performance indicators, the turnover rate should be below 20%. If everybody in town pays their debt fully, the turnover rate will be 8.33%. Council's turnover rate is listed below and it is better than the required key performance indicator.

DESCRIPTION	May-14	Jun-14	Jul-14
SMS Notification	6185	6121	6354
Final Request - Residential	4765	3052	3399
Final Request - Business	496	226	365
Electricity Disconnection Level 1 (Switch Off Supply)	99	103	92
Electricity Disconnection Level 2. Remove Circuit Breaker	5	18	7
Illegal Consumption Inspection Electricity Level 1 (Normal inspection)	21	36	72
Illegal Consumption Inspection Electricity Level 2. Follow up inspections	19	12	7
Water Restriction Level 1. (Restrict supply with a water flow restriction device)	587	663	648
Water Restriction Level 2. (Install water pressure reducing valve)	8	18	17
Illegal Consumption Inspection Water Level 1	551	658	824
Illegal Consumption Inspection Water Level 2. (Follow up)	70	129	72
Water Disconnection (Business accounts)	47	16	68

➤ **Comments for Government Accounts**

The arrears 90 days+ for government accounts is restricted to just a few accounts on which there are either a dispute regarding ownership or the property is not verified yet by respective departments. The high amount in the current column is due to the annual rates being charged in July every year.

➤ **The Top 10 Arrear Business Accounts**

The arrears 90 days+ for government accounts is restricted to just a few accounts on which there are either a dispute regarding ownership or the property is not verified yet by respective departments. The high amount in the current column is due to the annual rates being charged in July every year.

ACCOUNT NUMBER	NAME OF BUSINESS	CURRENT	90 DAYS +	TOTAL	COMMENTS
1854904	Basfour 3721 (Pty) Ltd	1 299 600	18 068 283	21 454 083	Basfour 3721 (Pty) Ltd / Indlovu Dev Trust Trustees is the account for some of the commission in respect of the 40% on sales above the agreed threshold in respect of the Golf Estate. The developer is currently disputing the amount. The matter has been handed over to Council's attorneys. Summons has been issued and the case is defended. The setting down of the court date by the Registrar of the High Court is awaited.
1623456	Richards Bay IDZ		3 934 492	3 934 492	Richards Bay IDZ is in respect of the rental charged to the IDZ for the vacant site that they fenced in but did not utilise. The monthly rental was stopped, the outstanding balance is included in the sale price and should accordingly be written back
483703	Zululand Chamber of Business Foundation	163 736	3 149 341	3 785 741	Zululand Chamber of Business Foundation is for rental charged. The matter is currently also in dispute in court and awaiting a court date
1610626	Tisand (Pty) Ltd	8 203	2 096 014	2 133 904	Tisand (Pty) Ltd is in respect of the water surcharge being levied against the debtor. The matter is under dispute and is with Council's attorneys.
1162082	RBCD Holdings (Pty) Ltd		1 984 575	1 984 575	RBCD Holdings is in respect of occupational rental on a property sold in the IDZ area. The matter is under dispute and are being handled by the City Development Department
416383	River Rock Invest (Pty) Ltd	4 280	1 192 324	1 287 602	
1929003	Zotec Development (Pty) Ltd		4 011 291	4 011 291	Zotec Development (Pty) Ltd refers to an account for contribution charges after the development of the Old Mill Security Estate. The matter is currently still being handled by the Finance Department Staff and there are discussions and correspondence with the developers and their attorneys on the matter
1451863	Pulp United (Pty) Ltd	69 470	764 202	1 042 083	Pulp United is for occupational rental. The transaction was cancelled but the cancellation orders were never issued. The whole amount will be written back when the cancellation order are received from City Development
1929028	PSE Development Initiatives (Pty) Ltd		629 119	629 119	Pulp United is for occupational rental. The transaction was cancelled but the cancellation orders were never issued. The whole amount will be written back when the cancellation order are received from City Development
982886	Ithala Development Finance		599 926	599 926	The Ithala account is in respect of water and electricity charges in respect of the property situated at 67 Tanner road. The property was sold and the consumer account never transferred to the new owners due to several disputes on the charges. The matter is being handled by the Metered Services Section in the Finance Department

3.8 Employee Debt / Councillor Debt

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

Employee debt amounts to R199 293,16 as per **Annexure AB - DMS 983609**.

Councillor's debt amounts to R1 373,39 as per **Annexure AC - DMS 983609**.

4. EXCEPTION REPORTING ON OPERATING EXPENSES – FOR ENTIRE MUNICIPALITY

The Chief Financial Officer will highlight what he deems are 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

Although total employee related expenditure is within budgetary limits, overtime expenditure has marginally exceeded its budgetary limits. Below is a table indicating overtime expenditure at the request of Council, which allows this expenditure to be monitored and managed on a monthly basis.

EXPENDITURE PER CATEGORY	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	(OVER) EXPENDITURE	% OF ADOPTED BUDGET OVER-SPENT
	R'000	R'000	R'000	R'000	%
Overtime	30 592	2 549	2 566	(16)	101

The table below indicates the total number of overtime hours worked and the total number of temporary and permanent employees:

EMPLOYEES	JULY 2014	
	TOTAL HOURS	TOTAL EMPLOYEES
Permanent	25 402	731
Temporary	2 150	105

Planned Repairs and Maintenance programmes should be standard practice for both infrastructure and movable assets such as Plant and Vehicles.

The table below represents the expenditure incurred on overtime for each department for the month July 2014. The relevant departments have supplied the comments for the over-expenditures incurred on overtime.

DEPARTMENT	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER/ (OVER) EXPENDITURE	% OF BUDGET SPENT
	R		R	R	%
City Development	0	0	0	0	0
Community Services	15 653 500	1 304 458	1 475 303	(170 845)	113%
Corporate Services	253 100	21 092	59 490	(38 399)	282%
Financial Services	114 200	9 517	4 253	5 263	45%
Infrastructure and Technical Services	14 570 800	1 214 233	1 026 486	187 747	85%
Office of the Municipal Manager	0	0	0	0	0
TOTAL	30 591 600	2 549 300	2 565 533	(16 233)	101%

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

4.2 Volume of Transfers

Council has only commenced the financial year – and during the first month a total of 23 transfers of funds forms have been received by the budget office from the departments. Over the previous financial years the excessive use of the Virement Policy (transfer of funds), it is anticipated that the number and value of transfers will increase as the year progresses. This practice is a risk to proper planning and service delivery. Departments are therefore urged to refrain from this practice. Unnecessary and nice-to have items should be avoided at all costs. Managers and Deputy Municipal Managers should scrutinise the transfers that are received for approval.

Type of Transfer of Funds	Number of Transfers
Capital	10
Operating	13
Total	23

The table below reflects the value of transfer of funds per department:

Department	Value of Transfers
Corporate Services	30 900
Community Services	133 300
Office of the Municipal Manager	1 100
ITS – Electrical Supply Services	65 600
ITS – Engineering Support Services	130 600
ITS – Roads and Stormwater	830 000
ITS – Water and Sanitation Services	97 000
TOTAL	1 288 500

5. **EXCEPTION REPORTING - DEPARTMENTAL**

5.1 **COMMUNITY SERVICES, HEALTH AND PUBLIC SAFETY AND RECREATIONAL AND ENVIRONMENTAL SERVICES**

5.1.1 **OVERTIME**

COMMUNITY SERVICES, HEALTH AND PUBLIC SAFETY					
OVERTIME					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER/ (OVER) EXPENDITURE
				R	R
COMMUNITY SERVICES AND HEALTH					
005	Fire Brigade	1 947 200	162 267	214 891	(52 625)
006	Traffic	3 126 600	260 550	278 099	(17 549)
009	Clinic	31 800	2 650	53 945	(51 295)
029	Commuter Facilities	73 500	6 125	9 772	(3 647)
032	Street Cleaning	4 426 900	368 908	414 676	(45 767)
033	Refuse Removal	4 050 400	337 533	377 974	(40 440)
037	Public Conveniences	141 600	11 800	11 978	(178)
Sub - total		13 798 000	1 149 833	1 361 334	(211 501)

□ **Vote 005 – Fire Brigade**

The overtime over-expenditure incurred by the Fire Department was due to number of fire and rescue incidents received and shift shortages due to 20 staff vacancies.

□ **Vote 006 – Traffic**

- The projections for the planned June 2014 overtime were based on the 2013/2014 salary rate for 2013/2014 whilst the payment occurred on the increased salary scales for 2014/2015. This resulted in an over expenditure.
- Traffic Officers were also required to attend to call outs after normal working hours = total hours of **51** for Traffic Officers.
- The traffic control room operates normally with four control room operators however due to a promotion the number of control room operators has reduced to three. The three operators accumulated more overtime hours as the control room is a 24 hour service (normal hours were **158** and **30** hours double time).

□ **Vote 009 – Clinic**

Richards Bay clinic extended its services in January 2014, which resulted in shift workers having to be paid for Public holidays as well as weekends. Due to an administration error the shift workers did not receive their overtime in the previous financial year. Payment was made in July 2014.

□ **Vote 029 - Commuter facilities, Vote 032 - Street Cleaning and Vote 037 - Public Conveniences**

The services delivered in terms of refuse removal, street cleaning, cleaning of public conveniences and commuter facilities is of such a nature that demand cannot be predicted and cleaning after normal working hours is often required to ensure that town is clean. It must be noted that figures reflected for July in terms of overtime also historically includes overtime worked during June of the preceding financial year. Limited funding has been provided for overtime expenditure in the 2014/2015 financial year and all attempts will be made by Waste Management to limit overtime without compromising effective service delivery.

COMMUNITY SERVICES – ENVIRONMENTAL AND RECREATION SERVICES					
OVERTIME					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER/ (OVER) EXPENDITURE
		R	R	R	R
002	Cemetery	729 500	60 792	48 365	12 427
024	Sport Development and Sports Field	203 400	16 950	16 004	946
027	Beach Facilities	400 000	33 333	32 074	1 259
042	Swimming Pools	455 600	37 967	0	37 967
073	Parks Distribution Account	67 000	5 583	17 526	(11 942)
Sub - total		1 855 500	154 625	113 969	40 656
TOTAL		15 653 500	1 304 458	1 475 303	(170 845)

□ **Vote 073 – Parks Distribution**

A number of trucks were out of commission and the available units were utilised on overtime basis to perform the duties of the rest of the said fleet. As non-removal of vegetation is a fire hazard.

5.2 **CORPORATE SERVICES**

5.2.1 **OVERTIME**

CORPORATE SERVICES					
OVERTIME - ADMINISTRATION					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER / (OVER) EXPENDITURE
		R	R	R	R
001	Administration	65 000	5 417	37 513	(32 096)
016	Municipal Halls	60 500	5 042	15 255	(10 214)
030	Council general expenditure	85 600	7 133	992	6 142
078	Printing and photocopy	42 000	3 500	5 730	(2 230)
TOTAL		253 100	21 092	59 490	(38 399)

□ **Vote 001 – Administration**

Over expenditure is as result of delivering various agenda after hours. The Call Centre has an incomplete staff complement which means a Call Centre Operator off duty has to come to work should one of their colleagues be either on sick or on vacation leave or time off.

□ **Vote 016 – Municipal Halls**

Overtime expenditure is as a result of the regular cleaning of the halls after each function. Therefore staff must be available to operate the necessary resources.

□ **Vote 078 – Printing and Photocopying**

Over-expenditure is due to deliveries of different agendas. The late items result in deliveries being made after hours if is during the week and on Saturdays if it on weekends. On Fridays when the agenda for Executive Committee and Council as well as other Committees of Council are to be delivered, at times the staff finish at around 19:30 which makes delivering on the same evening impossible.

5.3 **FINANCIAL SERVICES**

5.3.1 **OVERTIME**

FINANCIAL SERVICES					
OVERTIME					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER / (OVER) EXPENDITURE
				R	R
040	Financial Services	34 400	2 867	0	2 867
066	Supply Chain Management Unit	79 800	6 650	4 253	2 397
TOTAL		114 200	9 517	4 253	5 263

No comments required

5.5 **INFRASTRUCTURE AND TECHNICAL SERVICES**

5.5.1 **OVERTIME**

INFRASTRUCTURE AND TECHNICAL SERVICES					
OVERTIME - ELECTRICAL SUPPLY SERVICES					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER / (OVER) EXPENDITURE
		R	R	R	R
072	Electricity Distribution	3 883 700	323 642	250 549	73 092
083	Electricity	9 700	808	92 399	(91 591)
Subtotal		3 893 400	324 450	342 949	(18 499)

□ **Vote 083 – Electricity**

Provision was made in the 2013/2014 for planned night streetlight inspections and pole inspections. This overtime was worked in June 2014 and paid in July 2014. Therefore the amount reflects as over-expenditure in July 2014.

OVERTIME - ENGINEERING SUPPORT SERVICES					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER / (OVER) EXPENDITURE
		R	R	R	R
038	Engineering support	0	0	7 733	(7 733)
067	Mechanical services	607 100	50 592	39 820	10 771
Sub-total		607 100	50 592	47 554	3 038

□ **Vote 038 – Engineering Support Services**

The GMS Section had two vacancies since May 2014 thus the increase in workload and the need to work overtime. The time sheets backlog needed to be rectified before the financial year end for ease of complying with the finance requirements.

INFRASTRUCTURE AND TECHNICAL SERVICES					
OVERTIME - TRANSPORT, ROADS AND STORMWATER					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER / (OVER) EXPENDITURE
		R	R	R	R
068	Roads and Stormwater Distribution	0	0	77 685	(77 685)
Sub-total		0	0	77 685	(77 685)

□ **Vote 068 – Roads and Stormwater**

Provision was made in the 2013/2014 financial for overtime to be performed that was of an urgent and critical nature. This overtime was worked in June 2014 and paid in July 2014. Therefore the over-expenditure on overtime in July 2014, however a savings arose in the 2013/2014 financial year.

INFRASTRUCTURE AND TECHNICAL SERVICES					
OVERTIME - WATER AND SANITATION SERVICES					
VOTE	DESCRIPTION	ADOPTED BUDGET 2014/2015	PRO-RATA BUDGET 2014/2015 (YTD)	ACTUAL JULY 2014 (YTD)	UNDER / (OVER) EXPENDITURE
		R	R	R	R
062	Scientific Services	23 800	1 983	4 616	(2 633)
074	Water and sewerage distribution	9 484 100	790 342	519 340	271 001
087	Sewerage pump station distribution	562 400	46 867	34 342	12 524
Sub-total		10 070 300	839 192	558 299	280 892
Total		14 570 800	1 214 233	1 026 486	187 747

□ **Vote 062 Scientific Services**

Council approved the phased implementation of ISO 17025, CR5549. The Scientific Services currently has a ISO 17025 Project, with a set project plan, with CSIR. The Scientific Services personnel had to work overtime due to limited human resources and comprehensive daily activities, in order to keep to the project time plan.

6. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 982570**) respectively have been prepared in accordance with the Municipal Budgeting and Reporting Regulations:

TABLE NUMBER	DESCRIPTION	ANNEX
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 NUMBER	DESCRIPTION	ANNEX
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

7. DEBTORS ANALYSIS

Refer to supporting table SC3 - Aged Debtors (**Annexure M**) for the month ended 31 July 2014.

8. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 31 July 2014.

9. INVESTMENT PORTFOLIO ANALYSIS

Refer to supporting table SC5 - Investment portfolio (**Annexure O**) for the month ended 31 July 2014.

10. ALLOCATION AND GRANT RECEIPTS AND EXPENDITURE

Refer to supporting table SC6 - Transfers and grant receipts (**Annexure P**) and supporting table SC7 - transfers and grant expenditure (**Annexure Q**) for the month ended 31 July 2014.

11. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 31 July 2014.

12. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 July 2014:

- ❑ 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**).

Actual capital expenditure which represents payments made during the reporting period, constitutes only 1,63% (R6,8 million) of the Adopted budget of R6,8 million. Refer to 3.3 above for capital budget summary.

14. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **DMS 984150 (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.

DISCUSSION BY THE FINANCIAL SERVICES PORTFOLIO COMMITTEE ON 28 AUGUST 2014

The challenges associated with the non-spending of the Capital Budget must be highlighted progressively as and when they experienced to ensure that measures to curb under spending are timeously sought. The Acting Deputy Municipal Manager: infrastructure and Technical Services reported that the departmental cash-flow targets will be forwarded to form part of the monthly financial reporting. He further reported that as at the end of August 2014, the Civil Engineering cash-flow targets have been achieved. The Chairperson highlighted the fact that current spending is at 1.63% which is equivalent to R6.8 million whereas the overall Capital Budget is R419.8 million which raises a concern of the rate per month whereas there are continuing projects from the roll-over of 2013/2014 financial year that should form part of this financial reporting.

RECOMMENDED THAT:

the financial position of the uMhlathuze Municipality as at 31 July 2014, 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 982570)**, be noted.