

10678

FINANCIAL REPORTING AS AT 31 JANUARY 2016

This report served before the Financial Services Portfolio Committee on 25 February 2016 as well as Municipal Public Accounts Committee on 3 March 2016. The recommendations were supported.

PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 31 January 2016, 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 Ensure GRAP compliance 5.1.1.2 SCOA compliant (new reform) 5.1.1.3 Review of all budget related policies 5.1.1.4 Adherence to all MFMA and budget and reporting 5.1.1.5 Compliance with the Supply Chain Management regulation and PPPFA
	5.1.2 Sustainable Financial and supply chain Management	5.1.2.1 Improve internal communication on budget matters 5.1.2.2 Maintenance of fixed asset register 5.1.2.3 Credit control and debt collection 5.1.2.4 Compliant internal controls 5.1.2.5 Compliant grant reporting 5.1.2.6 Obtain targeted cash-backed statutory reserves 5.1.2.7 Development and appropriate training and assistance to employees 5.1.2.8 Identify and redress water and electricity tampering 5.1.2.9 Demand and acquisition management 5.1.2.10 Warehouse management 5.1.2.11 Contract administration

All annexures are circulated under separate cover.

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 issued MFMA Circular No 51 (**DMS 633560**) in which this prescribed format was set out.

Furthermore, 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 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.

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 made the regulations as set out in Government Gazette No 37577 (**DMS 974357**) dated 22 April 2014.

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

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

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

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

In terms of Council Resolution 8901 dated 26 November 2013, Council was selected as a Pilot Site for the SCOA 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 January 2016 is included under **Annexures Z and AA (DMS 1109828)**.

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 FOR THE MONTH - JANUARY 2016

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 January 2016, and the performance of the Municipality against its budget is in line with the budget that was approved by council in May 2015. A detail of all the points highlighted by the Mayor is included in the report.

Operational Expenditure

The monthly budget statement summary (Table C1) for the month of January 2016 (year to date actual), shows a surplus of R55,4 million. This implies that the municipality has been able to raise its budgeted income and has successfully collected such billed income as well.

Capital Expenditure

Council is in the second quarter of the financial year and capital expenditure is still low at R199,5 million (44,46%). This is based on the Adopted Capital Budget of R449 million.

Cash Flow

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 2,59: 1 (498 699/192 608). Therefore the Municipality has a positive bank balance to defray its expenses.

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

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

1. Although Council has made good progress in the implementation of mSCOA, however it remains a challenge because this is the first time using a system that is supposed to be compliant with the mSCOA regulations, and it is the first for the financial system vendor as well;
2. The collection of outstanding debt remains a challenge more especially in the Traditional Areas. Although Council is doing well when comparing the Municipality with Metros and others, Council still needs to do more on this front;
3. Slow capital expenditure remains a challenge with a 39.81% as at January 2016. It is therefore requested that administration must work hard to better the last year expenditure performance of 91%. Council will carry on monitoring the pattern of this expenditure.
4. Drought is a reality and as a Municipality we need a strategy to respond to this challenge.

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

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

2. RESOLUTIONS

Refer to the recommendations contained in this report.

3. EXECUTIVE SUMMARY

3.1 Status of MSCOA Project

As Council is aware this Municipality is performing a pilot exercise for the National Treasury on the new Municipal Standard Chart of Accounts. Such are governed by regulations which will become effective Nation-wide on 1 July 2017.

In short the change is resulting in some sound business reforms:

1. Ensuring a more consistent reporting of financial transactions across all municipalities in South Africa; and
2. Ensuring that municipalities can budget per objective or project based, not on items or products.

The Project commenced on the 1 September 2014 and we "went live" on 7 July 2015.

There are many challenges at this stage, however most relate to the effect the new chart has on its existing business processes. Council had to change the Supply Chain and Expenditure side of the existing financial system to accommodate such change using the existing service providers.

Fundamental transactions are taking place such as:

1. Receipting;
2. Billing;
3. Payments;
4. Stock Issues;
5. Requisitions;
6. Orders;
7. Contracts;
8. Bids (Electronic Version);
9. Journals;
10. Virements (Budget transfers);
11. Financial Reporting;
12. General Inquiry's facility;
13. Electronic Approvals (Work Flow); and
14. Interface with Sub ledger and Third Party programmes.

Primary system issues that are posing some problems with the above processes:

1. Works order component of financial system is not working;
2. Contract Payments Module not functional yet. Main reason here is that the user departments are not using it and interrogating any issues that might arise therefrom;
3. Bank Reconciliation is not been done currently, but progress is promising. It is believed that such will be up to date by end of March 2016;
4. Although, the bulk of backlogs are up to date, there are still a number of system issues which still cause delays in current payments, but colleagues are working tirelessly to resolve and report matters to service providers; and
5. It does appear that in the Supply Chain Division, the organizational changes will need to be made to exploit the benefits brought about by the SCOA project.

Primary business processes that are currently not functioning, but at various stages between January and June 2016, these should be up and running:

1. Works Orders;
2. Financial Assets; and
3. Budget Module (New – did not exist in Old Financial System).

The project is run on a strict Project Management basis and project issues are well documented and managed. Council is currently in the "hand holding" phase of the project which was planned to end at the end of September 2015. Given the extent of our challenges currently, it is envisaged that such hand holding phase will need to be extended to end of June 2016.

3.2 Operating Budget

The following table represents an executive summary for the financial period ended 31 January 2016:

DESCRIPTION	ADOPTED BUDGET 2015/2016	PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016 (YTD)	% OF PRO- RATA BUDGET SPENT
	R	R	R	%
Revenue (excluding capital grants)	2 524 300 900	1 472 508 858	1 473 539 850	100.07%
Expenditure	2 519 363 600	1 469 628 767	1 418 157 480	96.50%
	4 937 300	2 880 092	55 382 370	

As can be seen from the table above, Actual Surplus for the month ended 31 January 2016 is significantly higher than the Budgeted Surplus.

Actual revenue to Budgeted revenue is equal to the budget. Actual expenditure to Budgeted expenditure is lower than the budget limit.

The main reason in reduction of revenue is because of an economic downturn impacting the local economy.

3.3 Cash Flow Situation

Details of Bank Balances

DESCRIPTION	CASH ON HAND AT 31 JANUARY 2016	CASH OBLIGATIONS	POLICY TARGET	(SHORTFALL)/ SURPLUS AT 31 JANUARY 2016
	R	R	R	R
Conditional Grants	23 073 000	23 073 000	23 073 000	-
Workings Capital	498 699 000	192 608 000	385 216 000	113 483 000
Total (incl. investments)	521 772 000	215 681 000	408 289 000	113 483 000

Council's Working Capital Policy:

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 2,59: 1 (498 699/192 608).

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.**

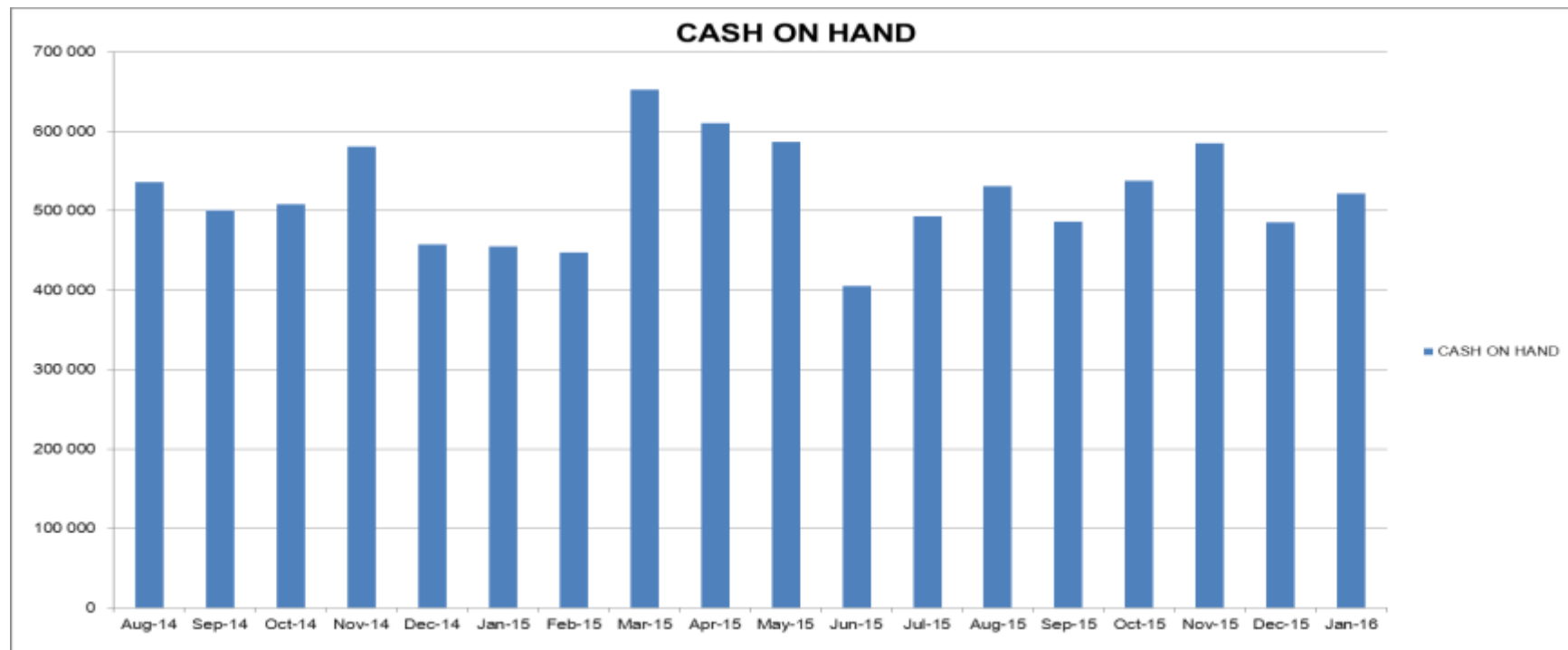
The calculation for the above ratio is as follows: [(221 772 – 23 073) +300 000) / (2 519 364 – 205 014 – 3 050) / 12] which currently sits at 2,59:1.

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.

Bank Balance Trend since June 2014

Table:

	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	April-15	May-15	Jun-15	Jul-15	Aug-15	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16
	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	501 032	508 007	580 872	457 572	455 589	447 501	652 334	610 458	586 847	405 490	493 345	531 182	486 628	537 500	585 547	485 395	521 772



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.

3.4 Grants Balances

DESCRIPTION OF GRANT	TOTAL GAZETTED FOR THE QUARTER ENDED 30 SEPTEMBER 2015	TOTAL GAZETTED FOR THE QUARTER ENDED 31 DECEMBER 2015	AMOUNT GAZETTED FOR JANUARY 2016	TOTAL TO BE RECEIVED AS AT 30/06/2016	AMOUNT RECEIVED AS AT 31/01/2016	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/01/2016	% SPENT	COMMENTS
NATIONAL TREASURY									
Equitable Share	95 802 000	76 642 000	-	402 369 000	155 613 000	246 756 000	216 136 816	139%	
Municipal Infrastructure Grant	29 000 000	26 000 000	-	148 154 000	55 000 000	93 154 000	67 600 045	123%	This expenditure is as per claims submitted to COGTA.
Municipal Systems Improvement Grant	930 000	-	-	1 860 000	930 000	930 000	354 564	38%	
Financial Management Grant	1 600 000	-	-	3 200 000	1 600 000	1 600 000	603 917	38%	
Municipal Water Infrastructure Grant	12 721 000	25 440 000	12 721 000	89 043 000	38 161 000	50 882 000	7 501 029	20%	
Water Services Operating Subsidy	1 750 000	3 500 000	1 750 000	12 250 000	-	12 250 000	3 417 568	0%	
Integrated National Electrification Grant	2 000 000	7 000 000	-	18 000 000	9 000 000	9 000 000	475 777	5%	
Rural Households Infrastructure Grant	2 250 000	2 250 000	-	9 000 000	4 500 000	4 500 000	3 179 914	71%	
Extended Public Works Pogramme	1 184 000	889 000	-	5 034 000	2 073 000	2 961 000	374 644	18%	
Infrastructure Skills Development Grant	2 250 000	-	5 250 000	9 750 000	7 500 000	2 250 000	2 354 772	31%	The 2014/2015 grant was over-spent by R1 071 700. This expenditure will be recovered from the 2015/2016 allocation.
Municipal Demarcation Grant	-	-	-	1 857 000	-	1 857 000	-	0%	
TOTAL NATIONAL TREASURY GRANTS	149 487 000	141 721 000	19 721 000	700 517 000	274 377 000	426 140 000	301 999 046	110%	

DESCRIPTION OF GRANT	TOTAL GAZETTED FOR THE QUARTER ENDED 30 SEPTEMBER 2015	TOTAL GAZETTED FOR THE QUARTER ENDED 31 DECEMBER 2015	AMOUNT GAZETTED FOR JANUARY 2016	TOTAL TO BE RECEIVED AS AT 30/06/2016	AMOUNT RECEIVED AS AT 31/01/2016	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/01/2016	% SPENT	COMMENTS
PROVINCIAL TREASURY									
Provincialisation of Libraries	6 289 000	-	-	6 289 000	6 289 000	-	10 148 223	161%	Expenditure shown is the total operating cost of the Libraries for the period.
Community Library Services Grant (Cyber cadets)	1 020 000	-	-	1 020 000	1 020 000	-	446 526	44%	Expenditure shown is the total operating cost of the Cybercadets for the period.
Housing Operating Account	1 047 000	-	-	1 047 000	2 974 040	(1 927 040)	6 026 305	203%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	-	-	166 000	166 000	166 000	-	2 860 656	1723%	Expenditure shown is the total operating cost of the Museum.
TOTAL PROVINCIAL TREASURY GRANT	8 356 000	-	166 000	8 522 000	10 449 040	(1 927 040)	19 481 709	186%	
TOTAL GRANTS AND SUBSIDIES	157 843 000	141 721 000	19 887 000	709 039 000	284 826 040	424 212 960	321 480 756	113%	

3.5 Capital Budget Summary

The above table represents Capital Expenditure incurred as at 31 January 2016 (44,46%):

FUNCTION	ADOPTED BUDGET 2015/2016	CASH FLOW PROJECTED BUDGET (YTD) AS PER ADOPTED BUDGET TABLES (SA29)	ACTUAL JANUARY 2016 (YTD)	% OF ADOPTED BUDGET SPENT	% OF CASHFLOW PROJECTION SPENT
	R	R	R	%	%
Executive and Council	92 600	92 600	-	0.00%	0.00%
Budget and Treasury Office	15 000	15 000	-	0.00%	0.00%
Corporate Services	44 497 900	24 875 744	18 512 148	41.60%	74.42%
Community and Social Services	40 525 500	30 200 000	3 941 991	9.73%	13.05%
Sport and Recreation	41 239 400	33 685 000	8 450 526	20.49%	25.09%
Public Safety	21 345 000	15 056 200	1 998 131	9.36%	13.27%
Housing	18 000 000	15 800 000	82 500 000	458.33%	522.15%
Health	4 866 600	4 842 400	1 095 259	22.51%	22.62%
Planning and Development	-	-	-	0.00%	0.00%
Road Transport	42 982 500	22 370 000	4 441 116	10.33%	19.85%
Electricity	24 830 600	21 622 700	6 517 765	26.25%	30.14%
Water	128 498 650	83 960 000	54 188 853	42.17%	64.54%
Waste Water Management (Sanitation)	79 806 550	43 546 500	15 994 606	20.04%	36.73%
Waste Management (Solid Waste)	1 777 900	1 777 900	1 484 206	83.48%	83.48%
Other	300 000	300 000	417 884	139.29%	0.00%
TOTAL	448 778 200	298 144 044	199 542 486	44.46%	66.93%

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADOPTED BUDGET 2015/2016	CASH FLOW PROJECTED BUDGET (YTD) AS PER COMPONENT 5	ACTUAL JANUARY 2016 (YTD)	% OF ADOPTED BUDGET SPENT	% OF CASHFLOW PROJECTION SPENT
	R	R	R	%	%
External Loans	159 702 100	105 192 394	44 657 976	27.96%	42.45%
Capital Replacement Reserve	110 082 400	86 090 994	16 963 138	15.41%	19.70%
MIG	88 496 200	50 900 000	38 179 398	43.14%	75.01%
Other National Government Grants	71 382 100	37 345 256	16 197 750	22.69%	43.37%
Provincial Government Grants	18 000 000	17 500 000	82 500 000	458.33%	471.43%
Public Contributions	1 115 400	1 115 400	1 044 229	93.62%	93.62%
TOTAL	448 778 200	298 144 044	199 542 490	44.46%	66.93%

3.6 The table below reflects a list of all tenders awarded in January 2016:

There were no tenders awarded in the month of January 2016.

3.7 Expenditure per Category

The table below represents operating expenditure per category incurred as at 31 January 2016:

EXPENDITURE BY TYPE	ADOPTED BUDGET 2015/2016	PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016 (YTD)	% OF PRO- RATA BUDGET SPENT
Employee related costs	615 819 200	359 227 867	338 091 960	94.12%
Remuneration of Councillors	24 728 600	14 425 017	13 977 774	96.90%
Debt Impairment	3 050 000	1 779 167	201 030	11.30%
Depreciation and asset impairment	205 014 200	119 591 617	119 672 183	100.07%
Finance Charges	79 806 300	46 553 675	46 553 675	100.00%
Bulk Purchases - Electricity	997 804 600	582 052 683	630 537 210	108.33%
Bulk Purchases - Water	136 253 700	79 481 325	76 193 408	95.86%
Other Materials	45 366 400	26 463 733	23 556 983	89.02%
Contracted Services	204 839 600	119 489 767	65 966 258	55.21%
Transfers and grants	13 883 600	8 098 767	3 143 731	38.82%
Other Expenditure	192 797 400	112 465 150	100 263 268	89.15%
TOTAL	2 519 363 600	1 469 628 767	1 418 157 480	96.50%

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 has not operated since 10 July 2015 and is subsequent in liquidation. Included in Electricity purchases are amounts in terms of the Generation Purchase agreement with Mondi.

A corresponding increase in Revenue amounting to R162 million is apparent under Service Charges – Electricity.

3.8 Revenue per Category

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

REVENUE BY SOURCE	ADOPTED BUDGET 2015/2016	PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016 (YTD)	% OF PRO- RATA BUDGET SPENT
Rates	360 000 000	210 000 000	217 813 072	103.72%
Service Charges – Electricity revenue	1 386 603 100	808 851 808	851 463 200	105.27%
Service Charges – Water revenue	281 565 000	164 246 250	133 244 623	81.12%
Service Charges – Sanitation revenue	84 000 000	49 000 000	47 321 755	96.58%
Service Charges – Refuse revenue	67 800 000	39 550 000	39 146 260	98.98%
Rental of facilities and equipment	10 874 400	6 343 400	902 865	14.23%
Interest earned – external investments	21 981 500	12 822 542	11 830 165	92.26%
Interest earned – outstanding debtors	1 558 000	908 833	1 310 814	144.23%
Fines	11 231 300	6 551 592	976 880	14.91%
Licences and permits	1 764 500	1 029 292	1 928 160	187.33%
Agency services	7 000 000	4 083 333	3 507 943	85.91%
Operating Grants and Subsidies	257 952 700	150 472 408	148 663 346	98.80%
Other Revenue	31 970 400	18 649 400	15 430 767	82.74%
TOTAL	2 524 300 900	1 472 508 858	1 473 539 850	100.07%

The above table represents operating revenue per category as at 31 January 2016.

3.9 Surplus and Deficit by Service Category

	ADOPTED BUDGET 2015/2016			ACTUAL AS AT 31 JANUARY 2016		SURPLUS/ (DEFICIT)
	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)	REVENUE	EXPENDITURE	
	R'000	R'000	R'000	R'000	R'000	R'000
Rates and General Services						
Executive and Council	2 955	3 371	(416)	119	(7 177)	7 296
Budget and Treasury Office	394 207	4 406	389 801	221 943	3 135	218 808
Corporate Services	6 489	43 945	(37 456)	3 371	27 936	(24 565)
Community and Social Services	10 562	61 319	(50 757)	8 416	24 150	(15 734)
Sport and Recreation	3 593	125 570	(121 977)	(3 797)	69 027	(72 824)
Public Safety	12 193	140 046	(127 853)	1 469	54 610	(53 141)
Housing	2 147	16 410	(14 263)	6 268	8 090	(1 822)
Health	12	9 886	(9 874)	-	4 992	(4 992)
Planning and Development	1 834	41 343	(39 509)	971	22 093	(21 122)
Road Transport	10 899	195 018	(184 119)	5 313	98 976	(93 663)
Water (Portion of PMU funded by Rates & General Services)	7 562	10 484	(2 922)	1 113	4 124	(3 011)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	7 562	12 363	(4 801)	1 113	4 931	(3 818)
Total Rates and General Services	460 015	664 161	(204 146)	246 299	314 887	(68 588)
Airport	596	736	(140)	384	255	129
Trading Services						
Electricity	1 393 890	1 211 487	182 403	856 986	762 832	94 154
Water	350 506	369 622	(19 116)	143 032	196 425	(53 393)
Clarified Water	20 365	17 578	2 787	54 556	6 443	48 113
Sewerage	184 724	150 113	34 611	106 107	81 489	24 618
Refuse Removal	114 206	105 667	8 539	66 176	55 836	10 340
Total Trading Services	2 063 691	1 854 467	209 224	1 226 857	1 103 025	123 832
Total Service Category	2 524 302	2 519 364	4 938	1 473 540	1 418 167	55 373

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 the trading services namely Electricity, Water, Sewerage and Refuse Removal are expected to be profitable, only Electricity, Sewer and Refuse services 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.

3.10 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	6 047 153	451 521	425 138	4 355 243	11 279 055
Business	185 035 830	6 070 559	3 888 484	64 571 669	259 566 542
Households	47 032 945	3 618 922	2 815 903	52 149 517	105 617 287
Other	2 449 395	839 121	653 251	15 068 838	19 010 605
Total	240 565 323	10 980 123	7 782 776	136 145 267	395 473 489
%	60.83%	2.78%	1.97%	34.43%	

➤ **Breakdown of Challenges per Category**

1. Government Accounts

TOP 10 GOVERNMENT ACCOUNTS			
ACCOUNT NUMBER	NAME OF DEPARTMENT	TOTAL	COMMENTS
		R	
1552325	Department of Public Works	578 951.69	Extensive individual reporting per account was included in previous reports. Following a previous Council resolution, the relevant government departments were engaged through official correspondence from the Mayor. Despite these letters and a continued effort from the staff in the Credit Control section, having meetings and writing numerous letters and emails, the accounts as listed remain unpaid. It must be noted that the Government has 396 accounts with Council and the majority of these accounts have been paid. It is only a certain small group of accounts, where the relevant departments indicated that the properties / usage of the properties must still be verified by the user department and the applicable Department of Public Works, where the accounts are not paid. A decision was therefore taken to issue notices of disconnection of services to all Government Departments and to keep the services disconnected until all the accounts are paid. These notices will be issued in early February 2016 and the proposed disconnections will be in the last week of February 2016. There will also be continuous engagements during this period in an attempt to resolve the accounts before such a drastic step becomes necessary.
970111	Province of Kwazulu Natal	377 831.64	
1991812	Province of Kwazulu Natal	353 668.92	
1552318	Department of Public Works	205 590.47	
1552357	Department of Public Works	157 177.20	
281009	Department of Public Works	105 528.61	
1553551	Department of Public Works	85 010.99	
891766	Department of Public Works	61 581.58	
1009849	Department of Public Works	61 277.87	
1340659	Department of Public Works	53 779.78	

2. Business Accounts

ACCOUNT NUMBER	NAME OF BUSINESS	90 DAYS +	TOTAL	COMMENTS
1854904	Basfour 3721 (Pty) Ltd	20 112 790	20 967 790	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. Council has now launched an anti-dissipation order application in an attempt to prevent the debtor from selling all his assets. This is to try and prevent a case where Council could be successful with the court case but still have no assets to attach. A decision was also taken to refuse the issuing of clearance certificates and this matter is also now going to be heard in court as they have launched a counter application to force Council to issue clearance certificates. The court date for the urgent applications will be heard, is set for early in June 2015.
				June 2015 - The court date for the application to be heard is set for 16 March 2016.
				January 2016 - There is not further progress as the court date is awaited.
1929003	Zotec development (Pty) Ltd	4 012 360	4 012 360	Zotec Development (Pty) Ltd refers to an account for contribution charges after the development of the Old Mill Security Estate. The matter is set down for Arbitration. No further progress since previous report.
				January 2016 - There is no further progress as the matter has been set down for arbitration. The legal services section is handling this matter.
1441047	Tata Steel KZN (Pty) in Liquidation	34 108 698	43 185 413	Tata Steel KZN (Pty) Ltd is in Liquidation. This account is for electricity. The company was placed in liquidation following failed business rescue proceedings. The matter is being handled by the Liquidator that was appointed by the Master of High Court. The latest info from the Liquidator is that he is in discussions to sell the business as a whole. The account is expected to be paid once the property is transferred to the new owner.
				January 2016 - The Liquidator has placed the property up for auction / tender as the previous negotiations with possible purchasers did not materialise.

1940649	Shifting Sands (Pty) Ltd	1 115 795	1 291 020	The account is in respect of services to a business park in Empangeni. The charges were charges to the previous owner and there was a large amount corrected on the account. There are still some aspects of the account that is under dispute which require possible correction and the Metered Services Section within the Finance Department is working to resolve it.
				August 2015 - All corrections required have been actioned. The matter is now being discussed with the customer.
				January 2016 - The customer did not honour the arrangements and notices of default was issued.
1610626	Tisand (Pty) Ltd	3 076 153	3 345 510	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. Council attorneys have now advised of a similar matter which now provides case law. The advise is currently being studied and will be reported on.
				January 2016 - No further progress to report.
392020	River Rock Invest (Pty) Ltd	1 336 639	1 623 833	River Rock Investments is in respect of unpaid charges in respect of rates that are under dispute. Matter still under consideration by legal services. They are paying their monthly charges excluding the disputed charge.
				January 2016 - No progress to report. Matter is being handled by Legal Services Section together with City Development. It was proposed that City Development & Legal Services provide a separate report detailing the nature of the dispute and the report has been completed and is in circulation for comments.
1929028	PSE Development Initiatives (Pty) Ltd	629 149	629 149	PSE Dev Initiatives refers to an account for contribution charges after the development of certain low cost housing initiatives around Ngwelezane. The debtor paid R300 000 towards the debt and requested some leniency for the balance. A separate report will serve in this regard. The report was completed and will serve in January 2016.

ACCOUNT NUMBER	NAME OF BUSINESS	90 DAYS +	TOTAL	COMMENTS
2024857	Sugarberry Trading	522 960	522 960	The account is for the contract for litterbin advertising. The details of this debt were reported continuously in the quarterly report from the user department. It was then resolved by Council that the contract be cancelled and the account be handed over to Council's attorneys for collection. The contract was then formally cancelled and handed over to Council's attorneys for collection. On request of the Legal Services section, this matter is being held in abeyance pending further negotiations with the debtor. A report was completed by the user department and will serve in February 2016.
2200118	RBT Resources (Pty) Ltd	1 073 007	1 338 711	Aug 2015 - This account is for outstanding rates. There is discussions / negotiations underway with the company and the matter is expected to be resolved shortly.
				January 2016 - There was a delay over the holiday periods to effect payment and the amount is expected to be paid during January 2016, but payment was only received directly after the closing of the month figures. The account will therefore not appear on the end February 2016 report.
416383	River Rock Investments (Pty) Ltd	1 580 648	1 656 318	River Rock Investments account is in respect of unpaid charges in respect of rental that are under dispute. Matter still under consideration by legal services and City Development. They are paying their monthly charges excluding the disputed charge.
				January 2016 - No progress to report. Matter is being handled by Legal Services Section together with City Development. It was proposed that City Development & Legal Services provide a separate report detailing the nature of the dispute and the report has been completed and is in circulation for comments.

3. Households

All credit control and debt collection actions as provided for in the Credit Control and Debt Collection policy are taken on a continuous basis against defaulters. These include the disconnection and blocking of electricity, the restriction of water as well as the handing over of accounts to attorneys for further collection.

There are many challenges with the collection of debt of which poverty appears to be the biggest challenge to overcome.

A further detailed report is in preparation that will provide an analysis of debt, together with proposals from a strategic perspective on possible solutions to improve debt collection.

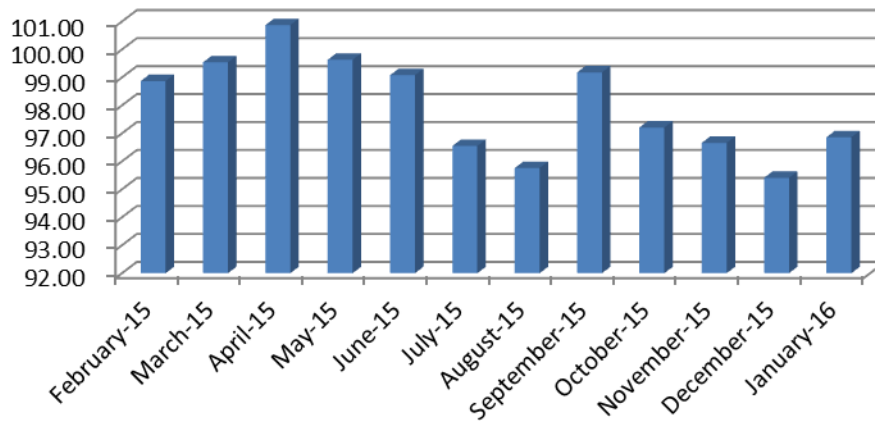
The table below refers:

TOWNS	BUSINESS OVER	HOUSEHOLDS OVER 90 DAYS		TOTAL
	90 DAYS	URBAN	TRADITIONAL AREAS	
	R	R	R	
Richards bay	59 574 164.64	710 379.23	919 132.77	1 629 512.00
Vulindlela	143 225.42	289 608.11	3 312 727.22	3 602 335.33
eNseleni	212 776.11	615 075.94	4 856 460.58	5 471 536.52
eSikhaleni	858 185.78	6 395 221.63	13 902 794.04	20 298 015.67
Empangeni	2 991 281.57	6 509 762.93	-	6 509 762.93
Ngwelezane	199 900.84	3 441 982.56	11 956 647.28	15 398 629.84
Total	63 979 534.36	17 962 030.40	34 947 761.89	52 909 792.29

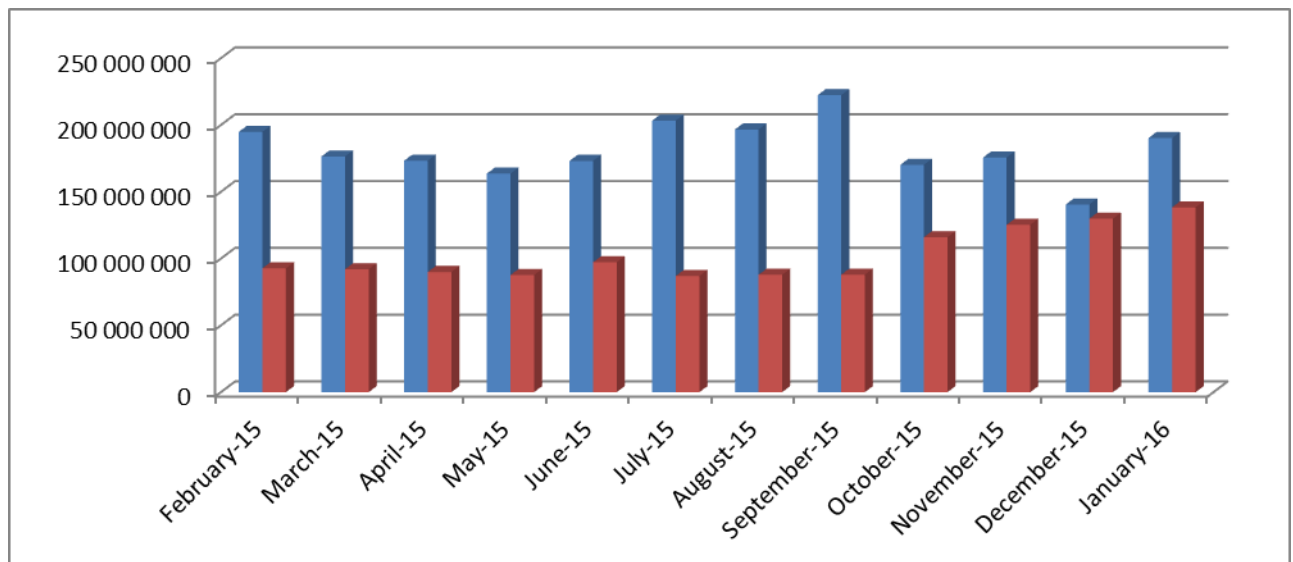
The debt collection rate for the previous 12 months is as follows:

MONTH	PERCENTAGE (%)
January-16	96.86
December-15	95.41
November-15	96.66
October-15	97.21
September-15	99.18
August-15	94.24
July-15	96.55
June-15	99.08
May-15	99.63
April-15	100.87
March-15	99.54
February-15	98.87

Debt Collection Ratio (%)



Month	Monthly Billing	Debtors 90 days +	Percentage
January-16	190 158 214	136 145 267	71.60%
December-15	140 463 164	129 798 712	92.41%
November-15	175 600 147	125 240 549	71.32%
October-15	170 151 856	116 009 460	68.18%
September-15	222 259 385	87 932 444	39.56%
August-15	163 599 892	87 813 204	53.68%
July-15	203 257 139	86 978 439	42.79%
June-15	173 081 964	97 215 214	56.17%
May-15	163 518 965	87 638 012	53.60%
April-15	173 226 083	89 918 524	52.16%
March-15	176 382 683	92 006 897	47.56%
February-15	194 758 958	92 636 860	49.43%

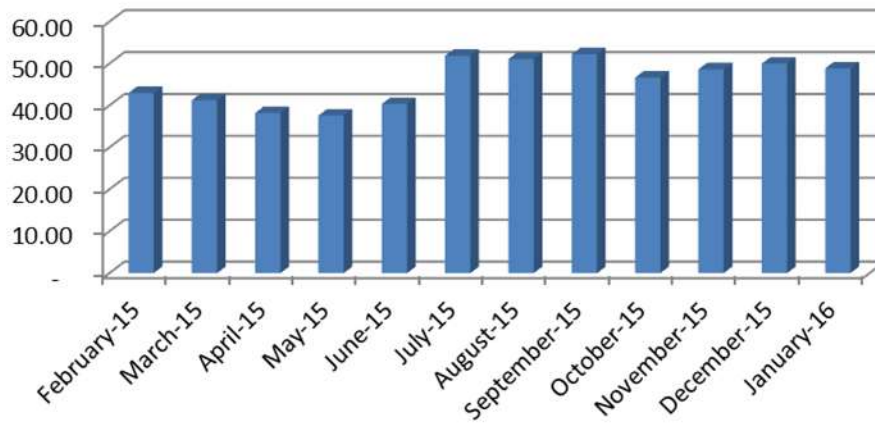


Debt Collection Rate

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

MONTH	COLLECTION IN DAYS
January-16	48.83
December-15	49.97
November-15	48.62
October-15	46.65
September-15	52.22
August-15	51.45
July-15	51.86
June-15	40.35
May-15	37.59
April-15	38.20
March-15	41.26
February-15	42.98

Debt Collection Ratio (In days)

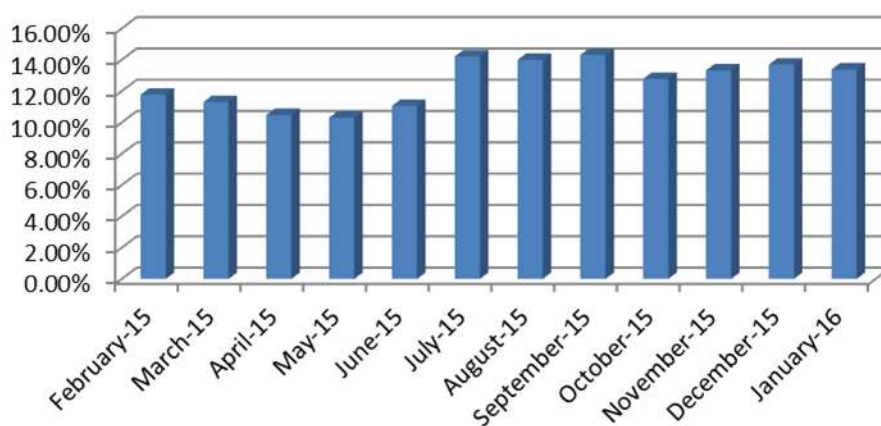


Turnover Rate of Debtors (%)

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
January-16	13.69%
December-15	13.69%
November-15	13.32%
October-15	12.78%
September-15	14.31%
August-15	13.99%
July-15	14.21%
June-15	11.05%
May-15	10.30%
April-15	10.47%
March-15	11.30%
February-15	11.77%

Debtors Turnover Rate (%)



Summary of Credit Control Technical Actions Performed

DESCRIPTION	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16
SMS Notification - General	9 217	5 832	6 781	6 682	6 838	7 962	2 132
SMS Notification - It & S	201 571	53 674	11 289	-	55 195	-	56 388
Final Request - Residential	3 265	2 305	5 329	2 886	3 789	3 301	4 078
Final Request - Business	328	148	328	191	256	263	413
Electricity Disconnection Level 1 (Switch Off Supply)	91	125	109	134	85	86	157
Electricity Disconnection Level 2. Remove Circuit Breaker	2	7	5	3	3	1	2
Illegal Consumption Inspection (Water or Electricity)	1 014	1 996	1 239	1 199	1 955	1 316	1 682
Water Restriction Level 1. (Restrict supply with a water flow restriction device)	640	803	438	574	1 034	454	897
Water Restriction Level 2. (Install water pressure reducing valve)	9	8	5	13	-	3	14
Water Disconnection (Business accounts)	20	24	20	8	6	7	14
Finals (New consumers, moving in or out, readings taken, disconnected / reconnected)	206	181	177	165	179	144	167

3.11 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 R166 831.07 as per **Annexure AB - DMS 1109828**.

Councillor's debt amounts to R4 895.34 as per **Annexure AC - DMS 1109828**.

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

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 for this expenditure to be monitored and managed on a monthly basis:

EXPENDITURE PER CATEGORY	ADOPTED BUDGET 2015/2016	PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016 (YTD)	(OVER) EXPENDITURE	% OF PRO-RATA BUDGET SPENT
	R	R	R	R	%
Overtime - Non-structured	14 362 800	8 378 300	22 364 502	(13 986 202)	267%
Overtime - Structured	21 544 500	12 567 625	404 409	12 163 216	3%
Shift Additional Remuneration	-	-	456 340	(456 340)	0%
TOTAL	35 907 300	20 945 925	23 225 251	(2 279 326)	111%

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

EMPLOYEES	JULY 2015		AUGUST 2015		SEPTEMBER 2015	
	Total Hours	Total Employees	Total Hours	Total Employees	Total Hours	Total Employees
Permanent	30 581	759	30 953	766	29 013	869
Temporary	643	69	403	20	549	63
	31 224	828	31 356	786	29 562	932

EMPLOYEES	OCTOBER 2015		NOVEMBER 2015		DECEMBER 2015	
	Total Hours	Total Employees	Total Hours	Total Employees	Total Hours	Total Employees
Permanent	29 108	785	33 231	789	28 644	793
Temporary	516	53	285	22	183	8
	29 624	838	33 516	811	28 827	801

EMPLOYEES	JANUARY 2016	
	Total Hours	Total Employees
Permanent	35 974	772
Temporary	1 943	100
	37 917	872

Planned Repairs and Maintenance programmes should be a 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 of January 2016. The relevant departments have supplied the comments for the over-expenditure incurred on overtime.

DEPARTMENT	ADOPTED BUDGET 2015/2016	PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA BUDGET SPENT
	R	R	R	R	%
Community Services	18 520 100	10 803 392	12 671 820	(1 868 428)	117%
Corporate Services	431 500	251 708	279 392	(27 684)	111%
Financial Services	128 100	74 725	74 425	300	100%
Infrastructure and Technical Services	16 827 600	9 816 100	10 195 811	(379 711)	104%
Office of the Municipal Manager	-	-	3 803	(3 803)	0%
Total	35 907 300	20 945 925	23 225 251	(2 279 326)	111%

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 Employee Related Costs - Overtime

In terms of Council Resolution 10542 dated 01 December 2015, Council resolved that:

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

During the period July 2015 to January 2016 the employees in the following functions worked overtime of more than 15 hours per week which is the maximum that may be allowed in terms of Council's revised overtime policy (DMS 854249). The detailed information is contained in Annexure AD (DMS 1109828).

The following tables sets out the applicable information:

FUNCTION	FUNCTION DESCRIPTION	1.5 OT	2.0 OT	TOTAL HRS	MAXIMUM HRS ALLOWED	DIFFERENCE
FX001001005001	Buildings Maintenance Total	52.00	10.00	62.00	60.00	2.00
FX002001001004	Electricity and Gas Distribution and Planning Total	878.75	351.00	1 229.75	900.00	329.75
FX002001002	Street Lighting Total	162.50	43.00	205.50	120.00	85.50
FX011001007	Police Forces Traffic and Street Parking Control Total	434.00	351.00	785.00	660.00	125.00
FX012001005	Taxi Ranks Total	40.00	104.00	144.00	120.00	24.00
FX013002003003	Recreational Facilities - Swimming Pools Total	144.00	408.00	552.00	480.00	72.00
FX014001003	Solid Waste Removal Total	1 080.00	3 160.00	4 240.00	3 900.00	340.00
FX014001004	Street Cleansing Total	1 184.00	3 360.00	4 544.00	4 080.00	464.00
FX015001001	Public Toilets Total	32.00	96.00	128.00	120.00	8.00
FX015001002003	Sewerage - Sewerage Network Total	2 574.50	1 225.00	3 799.50	2 640.00	1 159.50
FX016001001003	Water Treatment - Scientific Services Total	116.00	111.00	227.00	180.00	47.00
Grand Total		6 697.75	9 219.00	15 916.75	13 260.00	2 656.75

4.3 Volume of Transfers

Type of Transfer of Funds	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2016	Total Number of Transfers
Capital	0	0	1	3	4	14	0	22
Operating	0	10	7	28	23	76	34	178
Total	0	10	8	31	27	90	34	200

Department	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2016	Total Value of Transfers
Corporate Services	-	72 000	-	168 800	5 000	1 032 800	203 500	1 482 100
Community Services	-	-	401 700	1 214 000	2 495 500	3 492 700	125 100	7 603 900
Office of The Municipal Manager	-	877 600	-	7 000	-	7 000	56 400	948 000
City Development	-	6 900	7 700	-	364 000	3 481 900	169 800	4 030 300
Financial Services	-	4 740 000	3 000	2 000	1 160 000	1 162 000	3 500	7 070 500
ITS - Electrical Supply Services	-	50 000	-	1 515 000	13 400	1 943 300	190 000	3 711 700
ITS - Engineering Support Services	-	-	-	6 000	3 500	60 000	-	69 500
ITS - Roads and Stormwater	-	-	-	218 000	3 102 900	3 320 900	-	6 641 800
ITS - Water and Sanitation Services	-	-	-	878 900	532 800	4 686 000	6 300	6 104 000
Total	-	5 746 500	412 400	4 009 700	7 677 100	19 186 600	754 600	37 661 800

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

	2012/2013		2013/2014		2014/2015		2015/2016	
LINE ITEM	ADJUSTED BUDGET	ACTUAL	ADJUSTED BUDGET	ACTUAL	ADJUSTED BUDGET	ACTUAL	PRO-RATA BUDGET	ACTUAL
	R	R	R	R	R	R	R	R
SAFEGUARD ANS SECURITY	3 727 590	3 654 283	12 928 500	7 596 226	8 285 500	7 290 401	12 943 467	21 022 758

The spending patterns per department are as follows:

EXPENDITURE PER LINE ITEM	ADOPTED BUDGET 2015/2016	PRO-RATA BUDGET (YTD)	ACTUAL JANUARY (YTD)	UNDER/(OVER) EXPENDITURE	% OF PRO-RATA BUDGET OVERSPENT
	R	R	R	R	%
CITY DEVELOPMENT	2 028 600	1 183 350	1 434 860	(251 510)	121%
COMMUNITY SERVICES	9 024 100	5 264 058	8 712 371	(3 448 313)	166%
CORPORATE SERVICES	2 215 700	1 292 492	1 959 625	(667 133)	152%
FINANCIAL SERVICES	1 319 200	769 533	1 354 296	(584 763)	176%
INFRASTRUCTURE AND TECHNICAL SERVICES	7 601 200	4 434 033	7 555 605	(3 121 572)	170%
OFFICE OF THE MUNICIPAL MANAGER	-	-	6 000	6 000	0%
TOTAL	22 188 800	12 943 467	21 022 757	(8 067 290)	162%

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										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
COMMUNITY SERVICES AND HEALTH										
FX011001005	Fire Fighting and Protection	1 077 200	1 615 800	2 693 000	1 570 917	1 506 940	-	326 242	1 833 182	(262 265)
FX011001007	Police Forces, Traffic and Street Parkin	1 361 200	2 041 700	3 402 900	1 985 025	2 420 267	-	6 831	2 427 098	(442 073)
FX005001006003	Occupational Clinic	54 900	82 300	137 200	80 033	-	-	-	-	80 033
FX005001012	Security Services	-	-	-	-	166 507	-	41 640	208 147	(208 147)
FX012001005	Taxi Ranks	46 400	69 500	115 900	67 608	79 198	-	-	79 198	(11 590)
FX014001003	Solid Waste Removal	1 793 400	2 690 200	4 483 600	2 615 433	3 606 221	-	-	3 606 221	(990 788)
FX014001004	Street Cleansing	2 132 100	3 198 200	5 330 300	3 109 342	2 745 543	-	-	2 745 543	363 799
FX015001001	Public Toilets	60 400	90 500	150 900	88 025	110 700	-	-	110 700	(22 675)
Total		6 525 600	9 788 200	16 313 800	9 516 383	10 635 376	-	374 713	11 010 089	(1 493 706)

□ **Police Forces, Traffic and Street Parking Control**

The reason for the over expenditure was due the festive season holiday period and the Public Safety and Security Department was inundated with a lot of unplanned events that had necessitated deployments of personnel including special operations e.g. alcohol road blocks wherein there were lot of successes (more than 30 drunken drivers were arrested) thus attracted a lot of unplanned overtime. Our roads network needed to be covered at all material times including public holidays i.e. 16, 25, 26 December 2015.

□ **Security Services**

The last dance event is becoming very popular with popular artists that serve as crowd pullers thus attracting a lot of man power that spilled over to 1 January 2016 at the Beach Festival. The programs of our Political Office Bearers were quite intense resulting to more call outs by our security Compliance Officers during this reporting period.

□ **Solid Waste, Street Cleaning and Public Toilets**

It must be noted that all overtime worked in this section was planned and provided for during the 2015/2016 budget process. However, due to the availability of funds the entire budget request by the section could not be accommodated within the final budget.

Waste Management is an essential service and therefore has to work 7 days a week in order to ensure health and safety environment. The Festive season also by its nature demands that more attention be given to ablution facilities, ranks and litter picking. It also be noted that a number of staff working overtime at a time has been limited to weekends and holidays only and it has not increased for the last three years, even though there has been a noticeable increase of service in rural areas and businesses that are to be serviced during weekends, particular skips.

December had a number of holidays such as 16, 25 and 26 December which would increase on overtime. It should be noted that Waste Management has full staff complement on holidays that falls within working days. Furthermore, staff that work on weekends from 16 December to 11 January 2016 had to be increased to deal with influx of tourists and holiday makers.

COMMUNITY SERVICES - ENVIRONMENTAL AND RECREATION SERVICES

OVERTIME

FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
COMMUNITY SERVICES AND HEALTH										
FX001001003	Cemeteries	366 800	550 300	917 100	534 975	404 397	45 272		449 669	85 306
FX001001005002	Halls	39 300	58 900	98 200	57 283	82 331	26 576		108 907	(51 624)
FX013002004001	Sport Development and Sportfields	89 900	134 800	224 700	131 075	162 591	4 594		167 185	(36 110)
FX013002004002	Sports Grounds and Stadiums - Stadium	-	-	-	-	-	-		-	-
FX013001001	Beaches and Jetties	171 400	257 200	428 600	250 017	191 300	93 446		284 746	(34 729)
FX013002003003	Recreational Facilities - Swimming Pools	186 400	279 600	466 000	271 833	261 920	125 579		387 499	(115 666)
FX013001002	Community Parks (including Nurseries)	28 700	43 000	71 700	41 825	215 713	48 012		263 725	(221 900)
Total		882 500	1 323 800	2 206 300	1 287 008	1 318 252	343 479	-	1 661 731	(374 723)

□ **Halls**

Due to the high demand for usage of the halls, several functions/events are often hosted on the same day. Officials are required to ensure that the premises and furniture are properly taken care of and to ensure that after each function the hall is cleaned and ready for the next hirer. The majority of these events/functions take place outside of normal working hours and result in overtime expenditure.

Due to the specialised lighting system available at the newly refurbished Empangeni Hall it is imperative that an official always be present during events to ensure the correct operation of the lighting system, curtains and air conditioning system, once again resulting in overtime expenditure.

□ **Sport Development and Sportsfield**

It must be noted that all overtime worked in this section was pre-approved planned overtime. However, due to the availability of funds the entire budget request by the section could not be accommodated within the final budget.

The over-expenditure in Sport and Recreation during the month of January was caused by the fact that many activities were hosted at various sports fields on weekends and staff members had to do litter picking and clean ablution facilities throughout the events. These events included three Thanda Royal Zulu home matches of which officials had to do line marking, clean, assemble the player's tunnel and be on site for the duration of the match as per Premier Soccer League requirements.

□ **Community Parks**

All overtime worked at the parks section was pre-approved planned overtime. After investigation of the expenditure it was found that overtime worked at the cemeteries and beaches were incorrectly captured against Community Parks. This matter has been reported to the Finance section and journal corrections will be effected. The correction journal will be done.

□ **Beaches and Jetties**

It must be noted that all overtime worked in this section was pre-approved planned overtime. The warm weather experienced during this period resulted in public flocking to the beaches. Facilities being available 7 days a week, including the recent public holidays, resulted in the increased overtime expenditure. The continuous maintaining of the Blue Flag Status criteria also requires that staff be present at all times to ensure that the facility is kept to the required standard at all times and thus contributing to the over-expenditure. Cognisance should be taken that each New Year the Financial Department is cutting budget for overtime while the demand for overtime is creasing due to the increase in visitors utilizing the beach area during weekends and public holidays.

□ **Recreational Facilities – Swimming Pools**

It must be noted that all overtime worked in this section was pre-approved planned overtime. The facilities are open 7 days a week and staff are needed to work weekends and public holidays for the general cleaning of the swimming pool as well as the area. The demand is increasing by the public to utilise the pools during weekends the public holidays. Also swimming galas are only held during weekends and this requires more staff to set up as well as place lanes in the pool. All of this leads into over expenditure on overtime.

5.2 Corporate Services

5.2.1 Overtime

CORPORATE SERVICES										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
ADMINISTRATION										
FX005001001	Administrative and Corporate Support	119 100	178 700	297 800	173 717	137 256	26 514	31 693	195 463	(21 746)
FX005001008	Legal Services	-	-	-	-	164	-		164	(164)
FX004001001001	Mayor & Council	29 200	43 700	72 900	42 525	42 852	34 416		77 268	(34 743)
FX005001007	Information Technology	24 300	36 500	60 800	35 467	-	-		-	35 467
FX001001005003	Municipal Buildings	-	-	-	-	6 497	-		6 497	(6 497)
Total		172 600	258 900	431 500	251 708	186 769	60 930	31 693	279 392	(27 684)

□ Administration and Corporate Support, Mayor and Council

Admin and Support: The over expenditure was incurred due to agenda deliveries done on weekends and after hours.

Municipal Buildings: Overtime was incurred by staff members assigned at Halls and Thusong Centres. The process of transferring these staff members to Corporate Services has not yet been finalised.

Mayor and Council: Over expenditure was incurred due to loud hailing and attending meetings/functions over weekends.

5.3 Financial Services

5.3.1 Overtime

FINANCIAL SERVICES										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
FX005001003002	Revenue and Expenditure	14 700	22 200	36 900	21 525	-	-		-	21 525
FX005001013	Supply Chain Management	36 500	54 700	91 200	53 200	74 425	-		74 425	(21 225)
Total		51 200	76 900	128 100	74 725	74 425	-	-	74 425	300

□ Supply Chain Management Unit

The Supply Chain Management Unit (SCMU) provides support service to various user departments that must ensure that municipal services are provided 24 hours a day. The unit personnel on rotation basis are therefore required to be on standby in order to issue breakdown materials after hours to ensure the continuity of service delivery.

The only planned overtime is the issuing of fuel every Saturday / some public holidays. The Unit's overtime is the inherent from user departments and it is therefore difficult to ascertain and budget for the number of breakdowns during the year.

5.4 Municipal Manager

5.4.1 Overtime

MUNICIPAL MANAGER										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
FX005001009	Marketing, Customer Relations, Publicity	-	-	-	-	1 483	-		1 483	(1 483)
FX004001002005	Municipal Manager	-	-	-	-	2 320	-		2 320	(2 320)
Total		-	-	-	-	3 803	-	-	3 803	(3 803)

□ Marketing, Customer Relations and Publicity and Office of the Municipal Manager

Employees from the Office of the Municipal Manager Marketing, Customer Relations and Publicity and were part of the staff assisting during the State of the City Address.

5.5 Infrastructure and Technical Services

5.5.1 Overtime

INFRASTRUCTURE AND TECHNICAL SERVICES										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
ELECTRICAL SUPPLY SERVICES										
FX002001001001	Marketing and Customer relations	19 600	29 400	49 000	28 583	10 812	-	-	10 812	17 771
FX002001001003	Process Control Systems	11 400	17 200	28 600	16 683	9 104	-	-	9 104	7 579
FX002001001004	Electricity and gas Distribution and Planning	1 886 300	2 829 500	4 715 800	2 750 883	2 963 922	-	-	2 963 922	(213 039)
FX002001002	Street lighting	52 400	78 500	130 900	76 358	119 502	-	-	119 502	(43 144)
Total		1 969 700	2 954 600	4 924 300	2 872 508	3 103 340	-	-	3 103 340	(230 832)

□ Electricity and Gas Distribution and Planning

There were a total of 22 major power interruptions in the form of cable faults and terminations. The faults were at eSkhaleni, Empangeni & Ngwelezane areas. In addition we had a total of 379 LV no power calls; these have had a significant contribution to the over-expenditure in question.

INFRASTRUCTURE AND TECHNICAL SERVICES										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R
ENGINEERING SUPPORT SERVICES										
FX010001007001	Project Management Unit - Administration	3 300	5 000	8 300	4 842	-	-	-	-	4 842
FX005001005	Fleet Management	224 500	336 800	561 300	327 425	293 891	-	-	293 891	33 534
FX001001005001	Building Maintenance	-	-	-	-	49 810	-	-	49 810	(49 810)
Total		227 800	341 800	569 600	332 267	343 701	-	-	343 701	(11 434)

□ **Building Maintenance**

Two Employees worked over time at Royal-show ground Pietermaritzburg

INFRASTRUCTURE AND TECHNICAL SERVICES										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R		R	R
TRANSPORT, ROADS AND STORMWATER										
FX012001004002	Roads - Urban Roads	16 000	24 000	40 000	23 333	359	-	-	359	22 974
FX012001004003	Roads - Rural Roads	16 000	24 100	40 100	23 392	3 233	-	-	3 233	20 159
FX015001003	Storm Water Management	-	-	-	-	-	-	-	-	-
Total		32 000	48 100	80 100	46 725	3 592	-	-	3 592	43 133

INFRASTRUCTURE AND TECHNICAL SERVICES										
OVERTIME										
FUNCTION	DESCRIPTION	ADOPTED BUDGET 2015/2016			PRO-RATA BUDGET (YTD)	ACTUAL JANUARY 2016(YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURED	STRUCTURED	TOTAL		NON- STRUCTURED	STRUCTURED	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R		R	R
WATER AND SANITATION SERVICES										
FX015001002002	Sewerage - Pumpstations	193 900	290 900	484 800	282 800	231 792	-	49 934	281 726	1 074
FX015001002003	Sewerage - Sewerage Network	2 143 300	3 215 000	5 358 300	3 125 675	3 620 585	-	-	3 620 585	(494 910)
FX016001001003	Water Treatment - Scientific Services	20 900	31 300	52 200	30 450	21 216	-	-	21 216	9 234
FX016001002001	Water Distribution - Rural Water	2 143 300	3 215 000	5 358 300	3 125 675	1 434 483	-	-	1 434 483	1 691 192
FX016001002002	Water Distribution - Urban Water	-	-	-	-	1 387 167		-	1 387 167	(1 387 167)
Total		4 501 400	6 752 200	11 253 600	6 564 600	6 695 243	-	49 934	6 745 177	(180 577)

□ **Sewerage – Sewerage Network**

January is a Festive month whereby Employees are taking Leave for New year holidays, usually it's time when Depots are experiencing staff shortages and hence the outstanding jobs during the working hours will be escalated to an after hour call outs and emergencies which is resulting to an over expenditure.

Continuously breakdown/failures experienced from Municipal Fleet contribute largely on over expenditure, if the vehicle are in workshop people are becoming redundant and all work that is supposed to be done during the day will only be done after hours by standby teams. Another major over expenditure contributing factor is people are dumping into sewer manhole foreign obstacles found ranged from cans, plastic bottles and bricks. This results blockages which causes sewer over flow and that need to be cleared as an emergency.

□ **Water Distribution – Urban Water**

January is a Festive month whereby Employees are taking Leave for Christmas holidays, usually its time when Depots are experiencing staff shortages and hence the outstanding jobs during the working hours will be escalated to an after hour call outs and emergencies which is resulting to an over expenditure.

Continuously breakdown/failures experienced from Municipal Fleet contribute largely on over expenditure, if the vehicle are in workshop people are becoming redundant and all work that is supposed to be done during the day will only be done after hours by standby teams. Another major over expenditure contributing factor is aging water infrastructure which resulting an increase in pipeline failures and breakdowns / pipe burst.

6. **IN-YEAR BUDGET STATEMENT TABLES**

The following monthly budget statement tables **(DMS 1111825)** 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

7. DEBTORS ANALYSIS

Refer to supporting table SC3 - Aged Debtors (**Annexure M**) for the month ended 31 January 2016.

8. CREDITORS ANALYSIS

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 31 January 2016.

9. INVESTMENT PORTFOLIO ANALYSIS

Refer to supporting table SC5 - Investment portfolio (**Annexure O**) for the month ended 31 January 2016.

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 January 2016.

11. COUNCILLOR ALLOWANCES AND EMPLOYEE BENEFITS

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 31 January 2016.

12. CAPITAL PROGRAMME PERFORMANCE

Refer to the following tables for the month ended 31 January 2016:

- ❑ 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**).

13. MUNICIPAL MANAGER'S QUALITY CERTIFICATION

Refer to **DMS 1112490 (Annexure AE)**.

ENVIRONMENTAL IMPLICATIONS

None

FINANCIAL IMPLICATIONS

This has been covered in detail throughout the report.

LEGAL IMPLICATIONS

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

COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

DISCUSSION BY THE FINANCIAL SERVICES ON 25 FEBRUARY 2016

In response, the Chief Financial Officer explaining the outstanding amount indebted by Councillors indicated that though the matter is being addressed, it is required by law to report on the outstanding amount of monies until the debt is paid in full.

The Chief Financial Officer pointed out a summary of the Mayor's report which highlighted whether the Municipality's budget is being implemented in accordance with the service delivery and budget implementation plan as well as service delivery agreements with the municipal entities. Initially the current Capital Budget spending was reported as 39.81% and was amended to reflect **44.46% based on the adopted budget of R449 million**. Furthermore, in the report the Capital Expenditure was erroneously reflected as for the second quarter but was corrected to reflect the **third quarter**. The Acting Chairperson as well as all members present noted the low spending of the Capital Budget with concern.

Informed by the liquidation of Tata Steel and the possibility that monies indebted to Council might not be recovered, caution was expressed that in future it must be under no circumstance that the corporate guarantees compared to bank guarantees be entered into between a consumer and the Municipality. The Chief Financial Officer assured the Committee that some due diligence measures are in place at the Revenue Section in this regard.

Household debts older than 90 days were noted with concern. The CFO indicated that most monies indebted are from the households in the Traditional Areas. He urged Councillors to assist the administration and indicated that it is still a challenge to apply stringent measures in relations to revenue collection in Traditional Areas. He further indicated that the Department is prepared to attend the Ward meetings to address the community regarding this matter.

The deteriorating infrastructure in the Municipal Halls was also highlighted as somewhat not presenting the standard that needs to be maintained by the Municipality. At times hygienic requirements are not provided which compromise the level of cleanliness. It was indicated that stringent measures must be applied to enforce the appropriate cleaning and upkeep of the facility to the required standard after each use by the lessee. The Deputy Municipal Manager: Infrastructure and Technical Services assured the Committee that he will investigate the matter and report back.

DISCUSSION HELD BY THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (MPAC) ON 3 MARCH 2016

Clarity was given regarding the terminology used by National Treasury relating to “Revenue” which in Local Government terminology equates to “Operating Revenue”. The Committee agreed that the report be submitted to the Executive Committee.

RECOMMENDED THAT:

1. the financial position of the uMhlathuze Municipality as at 31 January 2016, 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 1111825)** be noted;
2. the comments on the Municipal Standard Chart of Accounts (SCOA) project status included under point 3.1 of the report be noted; and
3. Council is requested to condone the overtime hours worked above the maximum allowed hours of 15 per week under point 4.2 of the report.