

**ITEM 232**  
**FINANCIAL REPORTING AS AT 31 OCTOBER 2016**

**PURPOSE**

To submit for noting the financial position of the uMhlathuze Municipality as at 31 October 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

**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 mSCOA implementation.

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

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

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

Component 1, comprised of actual revenue collected by source and Component 2, comprised of actual operational and capital expenditure by vote for the month of October 2016 is included under **Annexures Z and AA (DMS 1167340)**.

## **DISCUSSION**

This report and the supporting schedules will be forwarded to National and Provincial Treasury as required in terms of Section 71 and Section 74 of the MFMA in electronic format.

## TABLE OF CONTENTS

<b>PART 1 - IN-YEAR REPORT</b>	
1.	Mayor's Report
2.	Resolutions
3.	Executive Summary
3.1	Executive Summary – Status of mSCOA Project
3.2	Executive Summary – Operating Budget
3.3	Executive Summary – Cash Flow Situation
3.4	Executive Summary – Grants Balances
3.5	Executive Summary – Capital Budget Summary
3.6	Executive Summary – Expenditure per Category
3.7	Executive Summary – Revenue per Category
3.8	Executive Summary – Surplus and Deficit by Service Category
3.9	Executive Summary – Debtors Age Analysis
3.10	Executive Summary – Employee Debt and Councillor Debt
4.	Exception Reporting – General
4.1	Exception Reporting – Employee Related Costs
4.2	Exception Reporting – Employee Related Costs - Overtime
4.3	Exception Reporting – Volume of Transfers
5.	Exception Reporting – Departmental
5.1	Exception Reporting – Community Services
5.2	Exception Reporting – Corporate Services
5.3	Exception Reporting – Financial Services
5.4	Exception Reporting – Infrastructure and Technical Services
6.	In-year budget statement tables
<b>PART 2 - SUPPORTING DOCUMENTATION</b>	
7.	Debtors' Analysis
8.	Creditors' Analysis
9.	Investment portfolio analysis
10.	Allocation and grant receipts and expenditure
11.	Councillor allowances and employee benefits
12.	Capital programme performance
13.	Municipal Manager's quality certification

## PART 1 – IN-YEAR REPORTING

### 1. **MAYOR'S REPORT FOR THE MONTH - OCTOBER 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 October 2016, and the performance of the Municipality against its budget is in line with the budget that was approved by council in May 2016. 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 October 2016 (year to date actual), shows a surplus of R108,5 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 only in the first quarter of the financial year and capital expenditure is low at R74,7 million (15,58%). This is based on the Adopted Capital Budget of R479 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 2,97:1 (586 607/197 501). 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 15,58% as at October 2016. It is therefore requested that administration must work hard to better the last year expenditure performance of 78,50%. 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 (Municipal Standard Chart of Accounts) Pilot Project**

The status in executive summary form is as follows:

#### **Governance and Change Management:**

- Both the Executive and Senior Management are supporting the initiative which greatly assists the polling out of the project.
- Reporting continues on a monthly basis both to Council and the National Treasury.

#### **Primary Challenges:**

- Due to the unexpected time taken in developing the financial system whilst in the live environment, the Finance Team has spent a lot more time than expected in ensuring transaction integrity, than the Team should have in reviewing the mSCOA structure itself. The National Treasury has a very structured "Questions and Answers platform which the Technical members of the Finance Team are not interrogating /exploiting sufficiently. The system now is a lot more stable than 15 months ago, therefore, allowing the core project team to interrogate the chart itself more critically going forward;
- There are still supplier payment delays and some procurement delays with reasons found in most cases lying with the officials not following correct procedure and not that of the mSCOA initiative or the Financial System itself;
- Some critical processes are only working partially:
  - Discount facility;
  - Retentions;
  - Cessions;
  - Costing module;
  - Project based accounting and budgeting;
  - Management Accounting; and
  - Payroll interface/link to the chart.
- Some installed and commissioned management processes are not been used at all or only partially. The specific functionality that is not used currently is the:
  - The Bids Module – Currently Bids are only captured at the end of the Bid Committee Process. Whereas to ensure proper control, the Process should commence at Bid Specifications; and

- Some un-commissioned processes / functionality that according to the project plan should have been functional by 30 June 2016 are not:
  - Budget Model;
  - Assets Module;
  - Fleet Module;
  - Works Orders/Costing Module,
  - General Financial Enquiries Module for Expenditure & SCM; and
  - Statutory Reporting Module.
- Given that the Municipality is pursuing a complete Enterprise Resource Planning solution, it may not be prudent to pursue these uncommission modules at this stage until the project team is exactly certain which direction the Administration taking going forward.
- The National Treasury has now finally settled with their final version of the chart itself – Version 6 which will be the legal version for implementation on 1 July 2017. The municipal current chart is a hybridised version of 5.3, 5.4 and 5.5 as we were piloting the chart.

The project was 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 initially in September 2015 and extended to 30 June 2016. Given that not all the modules are yet commissioned, the way forward is busy been formulated, hence, not yet finalised. It is expected that by the next summary report, the Chief Financial Officer will be able to report on such.

### 3.2 Operating Budget

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

DESCRIPTION	ADOPTED BUDGET 2016/2017	PRO-RATA BUDGET (YTD)	ACTUAL OCT 2016 (YTD)	% OF PRO- RATA BUDGET SPENT
		R	R	%
Revenue (excluding capital grants)	2,635,836,500	878,612,167	987,808,436	112.43%
Expenditure	2,629,336,500	876,445,500	897,600,400	102.41%
	<b>6,500,000</b>	<b>2,166,667</b>	<b>90,208,036</b>	

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

Actual revenue to Budgeted revenue is higher than the adopted budget. Actual expenditure to Budgeted expenditure is higher than the budget limit.

### 3.3 Cash Flow Situation

#### Details of Bank Balances

DESCRIPTION	CASH ON HAND AT 31 OCTOBER 2016	CASH OBLIGATIONS	POLICY TARGET	(SHORTFALL)/ SURPLUS AT 31 OCTOBER 2016
	R	R	R	R
Conditional Grants	64,603,000	64,603,000	64,603,000	-
External Loan	75,967,000	75,967,000	75,967,000	-
Workings Capital	510,640,000	197,501,133	395,002,266	115,637,734
Total (incl. investments)	651,210,000	338,071,133	535,572,266	115,637,734

#### **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 2,97: 1 (586 607/197 501).

#### **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: [(86 210 – 64 603) + 565 000) / (2 629 336 – 252 372 – 6 950) / 12] which currently sits at 2,97:1.

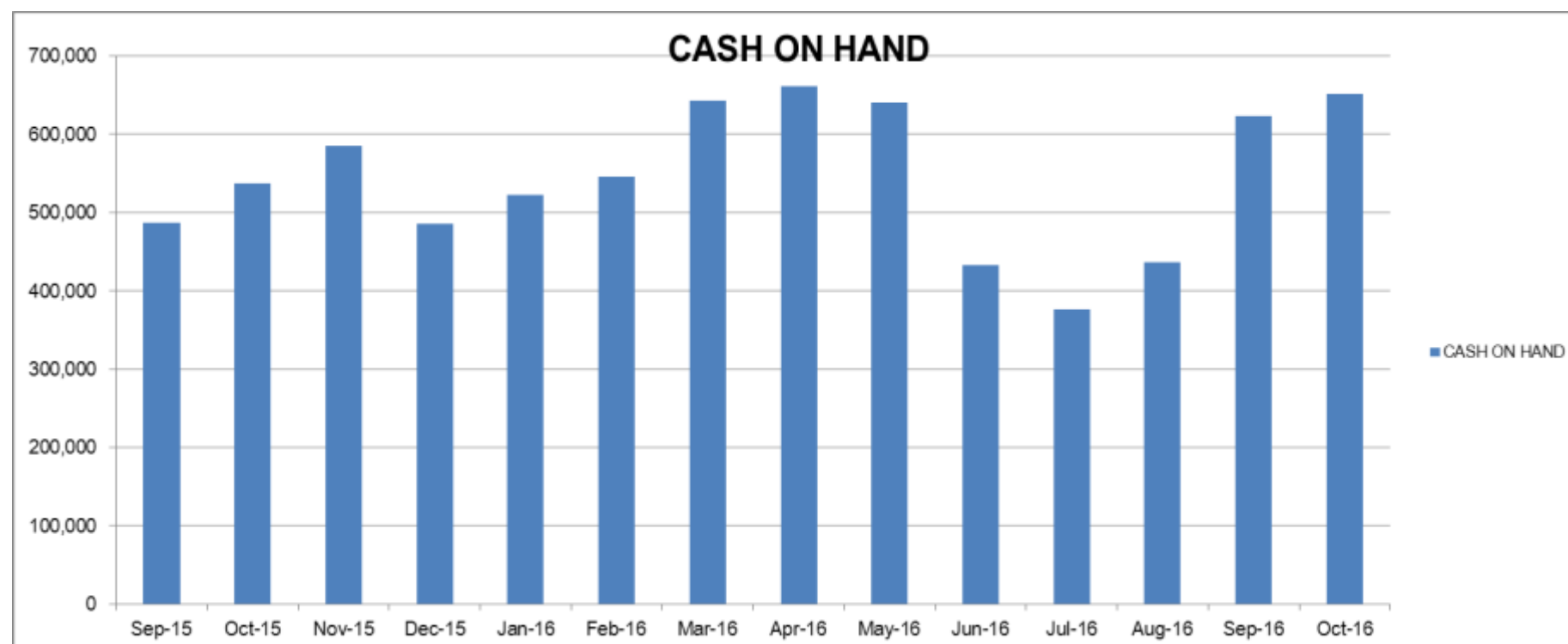
It therefore needs to be noted that both in terms of Council's Policy and the National Treasury MFMA Circular 71, the City of uMhlathuze has suitable cash coverage.



## Bank Balance Trend since September 2015

**Table:**

	Sept-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	June-16	July-16	Aug-16	Sep-16	Oct-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
Cash on Hand	486 628	537 500	585 547	485 395	521 772	545 885	643 000	660 924	639 902	432 557	375 903	436 305	623 440	651 210



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. The liquidity ratios have reached the acceptable standard norms but still need to be monitored on a continuous basis.

#### 4.4 Grants Balances

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2016	AMOUNT GAZETTED FOR AUGUST 2016	AMOUNT GAZETTED FOR SEPTEMBER 2016	AMOUNT GAZETTED FOR OCTOBER 2016	TOTAL TO BE RECEIVED AS AT 30/06/2017	AMOUNT RECEIVED AS AT 31/10/2016	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/10/2016	% SPENT	COMMENTS
<b>NATIONAL TREASURY</b>										
Equitable Share	40,281,000	65,872,000	-	-	263,487,000	106,153,000	157,334,000	87,829,000	33%	
Municipal Infrastructure Grant	-	28,907,000	-	-	99,817,000	28,907,000	70,910,000	24,610,009	25%	This expenditure is as per claims submitted to COGTA
Financial Management Grant	-	2,537,000	-	-	2,537,000	2,537,000	-	517,260	20%	Spending is in accordance with the cash flow submitted to National Treasury for the grant
Municipal Water Infrastructure Grant	-	-	15,276,000	25,460,000	50,921,000	40,736,000	10,185,000	-	0%	No expenditure has been incurred to date
Extended Public Works Programme	-	1,265,000	-	-	5,061,000	1,265,000	3,796,000	1,217,058	24%	The grant is for the operational expenditure for EPWP
Infrastructure Skills Development Grant	-	-	3,000,000	-	6,500,000	3,000,000	3,500,000	1,891,597	29%	The 2015/2016 grant was over-spent by R967 267.76 This expenditure will be recovered from the 2016/2017 allocation.
Municipal Demarcation Grant	1,943,000	1,457,000	-	-	7,286,000	1,943,000	5,343,000	939,345	13%	This grant is for the dis-establishment of Ntambanana Municipality.
<b>TOTAL NATIONAL TREASURY GRANTS</b>	<b>42,224,000</b>	<b>100,038,000</b>	<b>18,276,000</b>	<b>25,460,000</b>	<b>435,609,000</b>	<b>184,541,000</b>	<b>251,068,000</b>	<b>117,004,269</b>	<b>27%</b>	

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2016	AMOUNT GAZETTED FOR AUGUST 2016	AMOUNT GAZETTED FOR SEPTEMBER 2016	AMOUNT GAZETTED FOR OCTOBER 2016	TOTAL TO BE RECEIVED AS AT 30/06/2017	AMOUNT RECEIVED AS AT 31/10/2016	DIFFERENCE	ACTUAL EXPENDITURE AS AT 31/10/2016	% SPENT	COMMENTS
<b>PROVINCIAL TREASURY</b>										
Provincialisation of Libraries	6,947,000	-	-	-	6,947,000	-	6,947,000	7,107,928	102%	Expenditure shown is the total operating cost of the Libraries for the period.
Community Library Services Grant (Cyber cadets)	1,253,000	-	-	-	1,253,000	-	1,253,000	319,961	26%	Expenditure shown is the total operating cost of the Cybercadets for the period.
Housing Operating Account	-	-	-	-	-	-	-	3,599,901	0%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs.
Museum Subsidy	175,000	-	-	-	175,000	-	175,000	3,432,358	1961%	Expenditure shown is the total operating cost of the Museum.
<b>TOTAL PROVINCIAL TREASURY GRANTS</b>	<b>8,375,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,375,000</b>	<b>-</b>	<b>8,375,000</b>	<b>14,460,147</b>	<b>173%</b>	
<b>TOTAL GRANTS AND SUBSIDIES</b>	<b>50,599,000</b>	<b>100,038,000</b>	<b>18,276,000</b>	<b>25,460,000</b>	<b>443,984,000</b>	<b>184,541,000</b>	<b>259,443,000</b>	<b>131,464,416</b>	<b>30%</b>	

### 3.5 Capital Budget Summary

The table below represents Capital Expenditure incurred as at 31 October 2016:

FUNCTION	ADOPTED BUDGET 2016/2017	ROLL OVERS	PROPOSED ADJUSTMENT BUDGET 2016/2017	ACTUAL OCTOBER 2016 (YTD)	% OF ADOPTED BUDGET SPENT	% OF PROPOSED ADJUSTED BUDGET SPENT
	R	R	R	R	%	%
Community and Social Services	13,000,000	8,298,400	21,298,400	4,264,449	32.80%	20.02%
Corporate Services	43,000,000	4,350,300	47,350,300	14,463,339	21.15%	19.62%
Electricity and Gas	128,900,000	5,547,100	134,447,100	2,015,301	0.00%	0.00%
Executive and Council	-	14,000	14,000	-	0.00%	0.00%
Environmental Protection	-	327,900	327,900	-	0.00%	0.00%
Planning and Development	7,000,000	450,000	7,450,000	-	0.00%	0.00%
Public Safety	-	6,994,900	6,994,900	-	0.00%	0.00%
Road Transport	111,107,500	25,786,900	136,894,400	31,600,193	0.75%	0.72%
Sport and Recreation	25,723,900	8,118,600	33,842,500	(173,066)	0.00%	0.00%
Waste Management	3,500,000	-	3,500,000	-	0.00%	0.00%
Waste Water Management	44,122,400	2,050,600	46,173,000	9,459,300	-0.93%	-0.87%
Water	103,043,300	2,736,300	105,779,600	13,049,344	0.55%	0.54%
	<b>479,397,100</b>	<b>64,675,000</b>	<b>544,072,100</b>	<b>74,678,860</b>	<b>15.58%</b>	<b>13.73%</b>

The total adopted Capital Budget funding structure is as follows:

SOURCE OF FUNDING	ADOPTED BUDGET 2016/2017	ROLL OVERS	PROPOSED ADJUSTMENT BUDGET 2016/2017	ACTUAL OCTOBER 2016 (YTD)	% OF ADOPTED BUDGET SPENT	% OF PROPOSED ADJUSTED BUDGET SPENT
	R	R	R	R	%	%
External Financing Fund	200,000,000	31,042,000	231,042,000	21,723,433	10.86%	9.40%
Capital Replacement Reserve	133,650,000	32,163,000	165,813,000	34,998,443	26.19%	21.11%
MIG	94,826,100	-	94,826,100	17,956,985	18.94%	18.94%
Government Grants - National	50,921,000	-	50,921,000	-	0.00%	0.00%
Government Grants - Provincial	-	-	-	-	0.00%	0.00%
Insurance	-	1,470,000	1,470,000	-	0.00%	0.00%
<b>TOTAL</b>	<b>479,397,100</b>	<b>64,675,000</b>	<b>544,072,100</b>	<b>74,678,861</b>	<b>15.58%</b>	<b>13.73%</b>

### 3.6 Expenditure per Category

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

EXPENDITURE BY TYPE	ADOPTED BUDGET 2016/2017	PRO-RATA BUDGET (YTD)	ACTUAL OCT 2016 (YTD)	% OF PRO- RATA BUDGET SPENT
Employee related costs	676,868,500	225,622,833	209,269,412	92.75%
Remuneration of Councillors	26,461,500	8,820,500	7,477,636	84.78%
Debt Impairment	6,950,000	2,316,667	-	0.00%
Depreciation and asset impairment	252,372,900	84,124,300	102,457,634	121.79%
Finance Charges	80,335,400	26,778,467	26,778,467	100.00%
Bulk Purchases - Electricity	1,008,533,700	336,177,900	383,940,731	114.21%
Bulk Purchases - Water	120,080,800	40,026,933	34,828,576	87.01%
Other Materials	53,843,700	17,947,900	15,940,327	88.81%
Contracted Services	182,758,200	60,919,400	56,353,618	92.51%
Transfers and grants	12,681,100	4,227,033	3,582,916	84.76%
Other Expenditure	208,450,700	69,483,567	56,971,083	81.99%
<b>TOTAL</b>	<b>2,629,336,500</b>	<b>876,445,500</b>	<b>897,600,400</b>	<b>102.41%</b>

**Employee related costs** – Although it appears that savings amount to R 15m have materialised under employee related costs, there are a large number of vacant posts that will be filled in the subsequent months. It is also important to note a large number of employees will be receiving their annual bonus in December 2016, this expenditure will amount to R 7 million.

**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.

**Depreciation and asset impairment adjustment** - On the 2016/2017 tabled budget, Council through resolution 20 took the following resolution regarding the provision of depreciation for internally funded assets:

*"20. Council approves the R120 million offset of depreciation against contributions to Capital Replacement Reserves. The Chief Financial Officer advises that this is sustainable and acceptable only in the short term but not in the medium to long term"*

The primary driver of this decision was to keep tariffs at affordable levels.

Effectively the contributions to Councils Capital Replacement Reserve (CRR) for the 2017/18 financial year onwards were reduced by R120 million, which is not sustainable. With this in mind and the short term gain by Level 4 drought relief tariffs there is effectively a short term gain of an estimated R55 million for water over the 2016/17 financial year. This gain although not fulfilling the complete shortfall of R120 million, needs to be appropriated towards CRR. This adjustment will be regularized in the Adjustment budget.

### 3.7 Revenue per Category

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

REVENUE BY SOURCE	ADOPTED BUDGET 2016/2017	PRO-RATA BUDGET (YTD)	ACTUAL OCT 2016 (YTD)	% OF PRO- RATA BUDGET SPENT
Rates	402,140,000	134,046,667	135,497,115	101.08%
Service Charges – Electricity revenue	1,424,840,300	474,946,767	572,937,704	120.63%
Service Charges – Water revenue	265,520,000	88,506,667	104,990,351	118.62%
Service Charges – Sanitation revenue	86,820,000	28,940,000	28,462,086	98.35%
Service Charges – Refuse revenue	71,020,000	23,673,333	24,517,314	103.57%
Rental of facilities and equipment	12,099,300	4,033,100	4,763,068	118.10%
Interest earned – external investments	29,000,000	9,666,667	10,818,980	111.92%
Interest earned – outstanding debtors	100,000	33,333	12,365	37.10%
Fines	3,732,300	1,244,100	692,005	55.62%
Licences and permits	3,630,500	1,210,167	1,184,335	97.87%
Agency services	7,000,000	2,333,333	2,152,942	92.27%
Operating Grants and Subsidies	298,236,900	99,412,300	90,490,152	91.03%
Other Revenue	31,697,200	10,565,733	11,290,019	106.86%
<b>TOTAL</b>	<b>2,635,836,500</b>	<b>878,612,167</b>	<b>987,808,436</b>	<b>112.43%</b>

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

### 3.8 Surplus and Deficit by Service Category

	ADOPTED BUDGET 2016/2017			ACTUAL AS AT 31 OCTOBER 2016		
	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)	REVENUE	EXPENDITURE	SURPLUS/ (DEFICIT)
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Rates and General Services</b>						
Executive and Council	168	10,972	(10,804)	50	(2,436)	2,486
Budget and Treasury Office	441,662	5,688	435,974	147,979	(3,107)	151,086
Corporate Services	14,020	120,719	(106,699)	3,054	31,100	(28,046)
Community and Social Services	11,861	46,918	(35,057)	1,400	19,321	(17,921)
Sport and Recreation	4,131	127,848	(123,717)	1,508	39,913	(38,405)
Public Safety	4,750	109,674	(104,924)	1,124	34,661	(33,537)
Housing	1,400	17,168	(15,768)	494	4,053	(3,559)
Health	14	9,202	(9,188)	-	2,815	(2,815)
Planning and Development	1,947	49,883	(47,936)	526	13,777	(13,251)
Road Transport	10,502	205,019	(194,517)	3,317	64,722	(61,405)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	16,558	13,750	2,808	2,149	3,971	(1,822)
<b>Total Rates and General Services</b>	<b>507,013</b>	<b>716,841</b>	<b>(209,828)</b>	<b>161,601</b>	<b>208,790</b>	<b>(47,189)</b>
<b>Airport</b>	<b>646</b>	<b>816</b>	<b>(170)</b>	<b>-</b>	<b>174</b>	<b>(174)</b>
<b>Trading Services</b>						
Electricity	1,434,071	1,231,933	202,138	577,901	459,636	118,265
Water	345,645	385,447	(39,802)	132,542	133,073	(531)
Clarified Water	22,200	9,894	12,306	6,709	1,654	5,055
Sewerage	202,184	174,289	27,895	66,879	57,135	9,744
Refuse Removal	124,080	110,120	13,960	42,176	37,138	5,038
<b>Total Trading Services</b>	<b>2,128,180</b>	<b>1,911,683</b>	<b>216,497</b>	<b>826,207</b>	<b>688,636</b>	<b>137,571</b>
<b>Total Service Category</b>	<b>2,635,839</b>	<b>2,629,340</b>	<b>6,499</b>	<b>987,808</b>	<b>897,600</b>	<b>90,208</b>

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, Sewerage 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.

### **3.9 Debtors Age Analysis**

#### **➤ Debtors age analysis by category**

<b>DEBTORS AGE ANALYSIS BY CATEGORY</b>	<b>0-30 DAYS</b>	<b>31-60 DAYS</b>	<b>61-90 DAYS</b>	<b>OVER 90 DAYS</b>	<b>TOTAL</b>
Government	7,566,625	142,763	3,134,311	3,154,725	13,998,424
Business	202,624,319	8,715,930	6,223,196	94,729,096	312,292,541
Households	61,048,083	3,384,446	3,024,305	67,006,710	134,463,544
Other	4,296,638	529,359	443,391	14,508,063	19,777,451
<b>Total</b>	<b>275,535,665</b>	<b>12,772,498</b>	<b>12,825,203</b>	<b>179,398,594</b>	<b>480,531,960</b>
<b>%</b>	<b>57.34%</b>	<b>2.66%</b>	<b>2.67%</b>	<b>37.33%</b>	

### **FINANCIAL REPORTING ON INCOME / DEBT**

Section 216 (1)(c) of the Constitution and section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National Treasury determined the formulas for every financial ratio in terms of Circular 71. These formulas will therefore be used in the reporting.

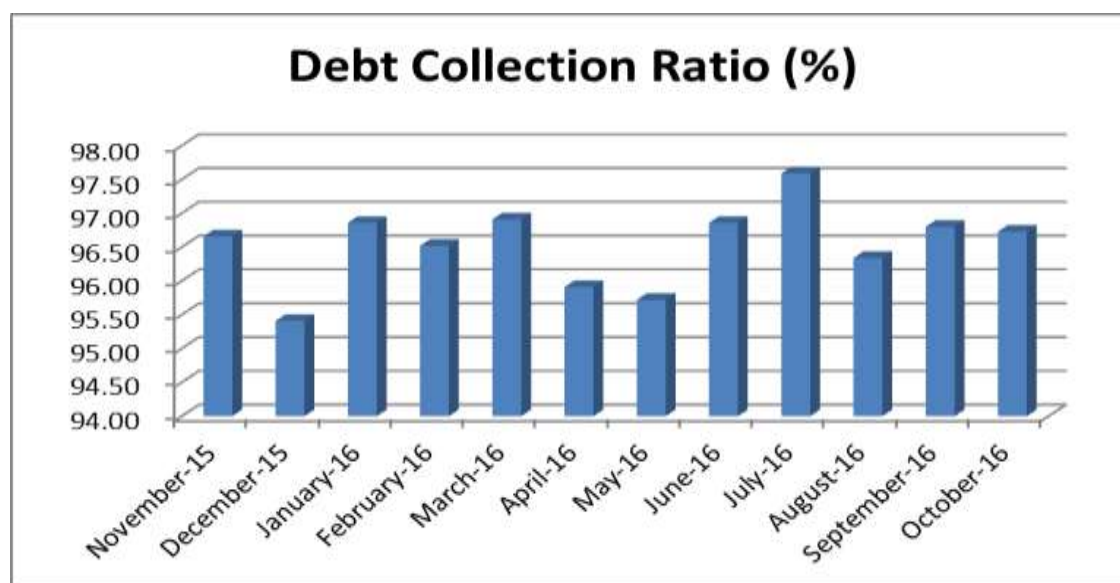


➤ **Debt Collection Rate**

The Ratio indicates the collection rate; *i.e.* level of payments. It measures increases or decreases in Debtors relative to annual billed revenue. The following formula and norm is included in the circular.

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

<b>Month</b>	<b>Debt Collection Ratio (%)</b>
October-16	96.73
September-16	96.80
August-16	96.34
July-16	97.59
June-16	96.86
May-16	95.72
April-16	95.91
March-16	96.91
February-16	96.52
January-16	96.86
December-15	95.41
November-15	96.66



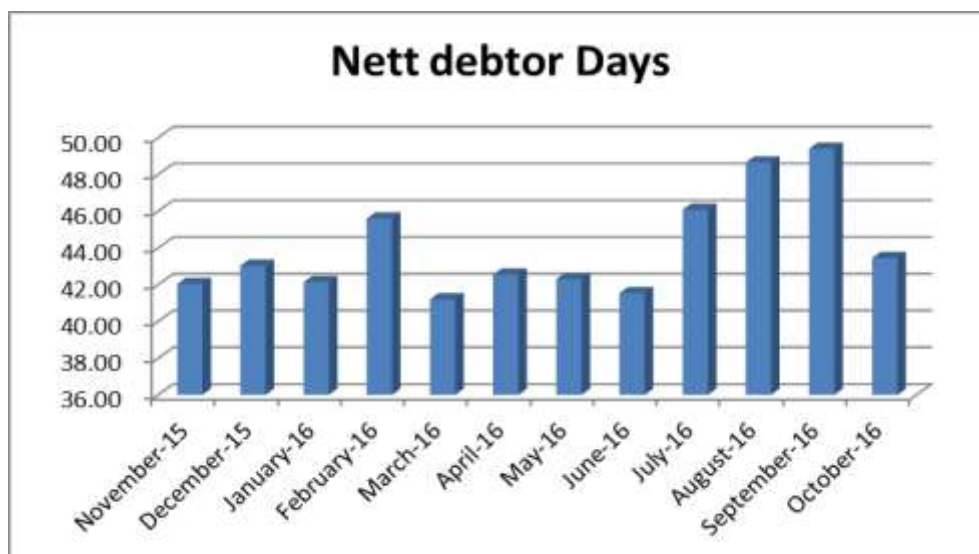
## ➤ Net Debtors Days

This ratio reflects the collection period. Net Debtor Days refers to the average number of days required for a Municipality or Municipal Entity to receive payment from its Consumers for bills/invoices issued to them for services.

The Ratio exclude balances for Debtors, which the Municipality or Municipal Entity has assessed as potentially irrecoverable, and is also a good indication of the effectiveness of credit control procedures within the Municipality as well as the extent to which the Municipality has provided for doubtful Debts.

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

Month	Net Debtor Days
October-16	43.45
September-16	49.40
August-16	48.65
July-16	46.08
June-16	41.54
May-16	42.30
April-16	42.55
March-16	41.20
February-16	45.60
January-16	42.14
December-15	43.03
November-15	42.04



➤ **Top Ten Business Debts**

The top 10 arrear Accounts				
Acc No	Name	90 days+	Grand Total	Comments
		R	R	
1441047	TATA STEEL KZN (PTY) LTD	54,373,388.96	64,080,074.48	Tata Steel KZN (Pty) Ltd in Liquidation. This account is for electricity and the second account is for rates and basic charges. The company was placed in liquidation following failed business rescue proceedings. A separate detailed report did serve before Council in this regard. The matter is being handled by the Liquidator that was appointed by the Master of High Court. The Liquidator has placed the property up for auction / tender as the previous negotiations with possible purchasers did not materialise. The Liquidator advised that a compromise offer is expected to be issued by the 3rd week of January 2016. The Liquidator has now advised that he will be requesting clearance figures and proceed with the transfer of the property. It is still expected that the full outstanding amount will be recovered. The application for clearance has not been made yet. There is no further progress to report. The liquidator advised that there are 2 possible new purchasers for the plant. The one company wants to re-open the plant and the other one wants to break it down and sell its assets. The company that wants to re-open the plant has submitted a proposal to Council regarding the electricity tariff. This proposal will be submitted to Council by the I&TS Department shortly. Further discussions were held between the Municipal Manager and the relevant Departments together with the prospected purchaser regarding negotiations about the electricity tariff. It was agreed that submissions would be made to Council and a separate report would be submitted to Council in this regard. There were negotiations between the liquidator and a company that is interested in the purchasing of the plant and re-opening it. The company also submitted a proposal to Council regarding the applicable tariffs which served under a separate report. The matter is currently before the High Court for approval of the transaction. If approved it will be submitted to the Competition Commission for their approval. If all is approved, the new company will start up the plant with 3 months thereafter. There is also another offer to purchase the plant with the Liquidator, which will also be submitted to the Court for consideration. There are no details available of what the offer entails. It is expected that the account will be settled when the transfer of ownership of the property takes place. The sale was approved by the Court but an application was made for appeal. The application for appeal was denied. The only outstanding issue for the sale to proceed now is the approval from the Competition Tribunal.
1461195	TATA STEEL KZN (PTY) LTD	2,661,593.68	3,310,269.13	<b>Update October 2016</b> - The transaction was approved by the Competition Tribunal. It is expected that the transfer of the property will take place within 3 months.
1854904	BASFOUR 3721 (PTY) LTD	20,631,109.88	20,631,109.88	<p>Basfour 3721 (Pty) Ltd / Indlovu Dev Trust Trustees is the account for the commission in respect of the 40% on sales above the agreed threshold in respect of the Golf Estate. The developer disputed the account. The dispute is of a contractual nature. The account was handed over to Council's attorneys. Summons was issued and the case was defended. The setting down of the court date by the Registrar of the High Court for the claim is still awaited. Council launched an anti-dissipation order application in an attempt to prevent the debtor from selling all his assets. This application is set down for March 2016. This was 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 but was abandoned on legal advice. There has been some different interpretations regarding certain provisions in the original agreement. Specifically the provisions regarding the levying of rates and the payment of commission of the developed properties of the developer within the estate. It was now advised by Council's attorneys that the correct interpretation in respect rates is that the developer must be charged rates from the date the development was completed. An additional amount of rates of approximately R2 million will be charged. The attorneys also advised that the commission should only be charged on the vacant erven in the estate and not on the developed sectional title units. The current debt in respect of commission of R21 million will therefore reduce with R7 million rands.</p> <p><b>Update October 2016</b> There is no further progress as the court date is awaited.</p>

The top 10 arrear Accounts				
Acc No	Name	90 days+	Grand Total	Comments
		R	R	
1610626	TISAND (PTY) LTD	3,779,641.29	4,121,060.49	This account for Tisand (Pty) Ltd is in respect of the water surcharge being levied against the debtor. The matter is under dispute. Council obtained advice from its attorneys. The advice is currently being studied and will be reported on in due course. <b>Update October 2016</b>
1929003	ZOTEC DEVELOPMENT(PTY) LTD	3,192,360.05	3,192,360.05	<b>Update October 2016.</b> There is no further progress as the arbitration date is awaited.
2289941	PANDA PETROLEUMS	2,079,386.38	2,675,707.75	This debt is in respect of rental of town land in respect of the proposed truck stop in Alton. The debtor's failure to adhere to the agreement has been reported to the DMM City Development, Property Division to give the debtor notice in terms of the agreement. The debtor's account is also in process of being handed over to Council's attorneys for collection. The account was handed over for collection and the attorney proceeded with the required statutory notices before summons will be issued. Correspondence was received to the effect that Panda alleges that there has been an agreement that the account will be waived. The matter is being investigated. <b>Update October 2016</b> Internal comments from the relevant departments are still being awaited.
416383	RIVER ROCK INVEST (PTY) LTD	1,718,580.67	1,889,268.67	River Rock Investments accounts is in respect of unpaid charges in respect of rental and payment of rates of the caravan park where the agreement do not provide for rates that are under dispute. Matter still under consideration by the Legal services and the Department of City Development. River Rock are paying their
392020	RIVER ROCK INVEST (PTY) LTD	798,370.08	1,492,228.61	
1940649	SHIFTING SANDS PROPERTY INVESTM	719,880.66	1,000,404.43	The account is in respect of services to a business park in Empangeni. The charges were charges related to the previous owner and there was a large amount corrected once off on the account. There were some aspects of the account that were under dispute, which required correction. These matters were resolved by the Metered Services Section within the Finance Department. The customer is paying the amount off in instalments. The customer did not honour the arrangements and notices of default were issued. Further meetings were held with the client and his attorneys and a substantial payment (R200,000) was made towards the account. A new payment arrangement was also concluded and the debtor will now continue to pay towards the debt in instalments. <b>Update October 2016.</b> The debtor is honouring the arrangement and paying in instalments.
1929028	PSE DEVELOPMENT INITIATIVES (PTY) L	609,272.79	609,272.79	This 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 based on leniency that was given to various other developers of low cost housing in Ngwelezane and Esikhaleni. A separate report will serve in this regard. The report is currently in circulation for comments. <b>Update Sept 2016.</b> There is no further progress to report.
<b>Total</b>		<b>90,563,584.44</b>	<b>103,001,756.28</b>	

## **Government Debt**

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

<b>The top 10 arrear Govt Accounts Accounts are :</b>				
<b>Account</b>	<b>Registered Name</b>	<b>Address</b>	<b>90 Days +</b>	<b>Grand Total</b>
1552325	DEPARTMENT OF PUBLIC WORKS	Stand 16832/0, AGRICULTURAL PROPERTIES	601,312.30	675,894.37
2202725	MINISTER OF LAND AFFAIRS	Stand 15829/0, MKWANAZI NORTH	426,024.11	937,679.31
1991812	PROVINCE OF KWAZULU NATAL	Stand 8917/0, CARSDALE	361,159.76	438,535.95
1552318	DEPARTMENT OF PUBLIC WORKS	Stand 16802/0, AGRICULTURAL PROPERTIES	213,344.80	255,947.68
1552357	DEPARTMENT OF PUBLIC WORKS	Stand 16833/0, AGRICULTURAL PROPERTIES	163,086.46	195,719.84
993581	DEPARTMENT OF PUBLIC WORKS	NGWELEZANE A46 MAQHAMSELA ROAD	141,288.69	135,716.33
2292976	DEPARTMENT OF PUBLIC WORKS	Stand 13661/0, MANDLAZINI VILLAGE	136,114.49	245,575.12
315314	DEPARTMENT OF PUBLIC WORKS	Stand 385/0, ESIKHAWINI H	116,955.00	236,187.50
281009	DEPARTMENT OF PUBLIC WORKS	Stand 2062/0, ESIKHAWINI J	99,666.61	110,081.67
2292951	DEPARTMENT OF PUBLIC WORKS	Stand 13645/0, MANDLAZINI VILLAGE	93,656.74	168,973.68
<b>TOTAL</b>			<b>2,352,608.96</b>	<b>3,400,311.45</b>

### **Comments Regarding Government Debt**

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 above 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 any an all government departments and to keep the services disconnected until all the accounts are paid. These notices were issued in early February 2016 and the electricity was disconnected during the March 2016. Several government institutions were disconnected and a positive reaction was received. Several meeting were immediately held with Council officials and some long outstanding debt was settled.

The only problematic accounts that remain are being investigated and it is expected to be resolved soon. The pressure will be kept up and further disconnections will be scheduled if further results are not forthcoming. A company appointed by the department of Public Works completed an investigation regarding all government accounts and the report was completed in June 2016. It is expected to have a positive outcome and possibly even the full payment of outstanding disputed accounts.

**Update Oct 2016** - The matter is ongoing.

### 3.10 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 R 184 046,79 as per **Annexure AB - DMS 1167340**.

Councillor's debt amounts to R 46 590,95 as per **Annexure AC - DMS 1167340**.

### 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 exceeded its budgetary limits by 19%.

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	PROPOSED ADJUSTED BUDGET 2016/2017	PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCT 2016 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA PROPOSED ADJUSTED BUDGET SPENT
		R	R	R	%
Overtime - Non-structured	19,382,500	6,460,833	7,805,688	(1,344,855)	121%
Overtime - Structured	13,735,600	4,578,533	5,379,742	(801,209)	117%
Shift Additional Remuneration	1,927,300	642,433	716,843	(74,410)	112%
<b>TOTAL</b>	<b>35,045,400</b>	<b>11,681,800</b>	<b>13,902,273</b>	<b>(2,220,473)</b>	<b>119%</b>

The table below represents the expenditure incurred on overtime for each department for the month of October 2016. The relevant departments have supplied the comments for the over-expenditure incurred on overtime.

DEPARTMENT	PROPOSED ADJUSTED BUDGET 2016/2017	PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCT 2016 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO- RATA PROPOSED ADJUSTED BUDGET SPENT
	R	R	R	R	%
Corporate Services	513,200	171,067	247,094	(76,027)	144%
Infrastructure and Technical Services	13,904,100	4,634,700	6,920,430	(2,285,730)	149%
<b>Total</b>	<b>14,417,300</b>	<b>4,805,767</b>	<b>7,167,524</b>	<b>(2,361,757)</b>	<b>149%</b>

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).

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 October 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 1167340).

The following table sets out the applicable information:

OVERTIME - OCTOBER 2016						
SHIFT OVERTIME						
FUNCTION	FUNCTION DESCRIPTION	1.5 OVERTIME	2.0 OVERTIME	TOTAL HRS	MAXIMUM HRS ALLOWED PER MONTH	DIFFERENCE
FX002001001001	Marketing and Customer relations Total	102.00	68.00	170.00	120.00	50.00
FX002001001004	Electricity and Gas Distribution and Planning Total	941.50	383.00	1,324.50	1,080.00	244.50
FX002001002	Street Lighting Total	350.00	107.00	457.00	300.00	157.00
FX005001005	Fleet Management Total	35.25	36.00	71.25	60.00	11.25
FX005001006004	Training and Industrial Relations Total	65.00	20.00	85.00	60.00	25.00
FX011001007	Police Forces Traffic and Street Parking Control Total	24.00	42.00	66.00	60.00	6.00
FX012001004002	Roads - Urban Roads Total	72.00	32.00	104.00	60.00	44.00
FX012001005	Taxi Ranks Total	24.00	56.00	80.00	60.00	20.00
FX014001003	Solid Waste Removal Total	24.00	40.00	64.00	60.00	4.00
FX014001004	Street Cleansing Total	24.00	40.00	64.00	60.00	4.00
FX015001002003	Sewerage - Sewerage Network Total	2,227.00	661.00	2,888.00	2,160.00	728.00
FX016001001003	Water Treatment - Scientific Services Total	151.00	33.50	184.50	120.00	64.50
	<b>Grand Total</b>	<b>4,039.75</b>	<b>1,518.50</b>	<b>5,558.25</b>	<b>4,200.00</b>	<b>1,358.25</b>

## 4.2 Volume of Transfers

Type of Transfer of Funds	July 2016	August 2016	September 2016	October 2016	Total Number of Transfers
Capital	1	-	2	12	15
Operating	47	41	30	43	161
<b>Total</b>	<b>48</b>	<b>41</b>	<b>32</b>	<b>55</b>	<b>176</b>

Department	July 2016	August 2016	September 2016	October 2016	Total Value of Transfers
City Development	107,000	2,409,800	86,000	120,100	2,722,900
Community Services - Health and Public Safety	6,576,500	2,546,000	1,480,600	3,037,200	13,640,300
Corporate Services	179,500	547,600	50,000	165,700	942,800
Financial Services	57,000	1,842,400	-	119,100	2,018,500
IT S - Electrical Supply Services	-	36,000	66,200	290,700	392,900
IT S - Engineering Support Services	150,000	8,243,600	-	10,000	8,403,600
IT S - Roads and Stormwater	467,300	2,000	350,000	1,643,300	2,462,600
IT S - Water and Sanitation Services	2,321,200	180,900	3,561,000	5,354,600	11,417,700
Office of The Municipal Manager	10,200	140,000	-	19,000	169,200
<b>Total</b>	<b>9,868,700</b>	<b>15,948,300</b>	<b>5,593,800</b>	<b>10,759,700</b>	<b>42,170,500</b>

The table indicated above shows the Virements received by Financial Services in October 2016 from the various departments. Virements received so early in the financial year indicates bad planning by the respective user departments.



### 4.3 Exception reporting - Specific Line items

**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.

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	
LINE ITEM	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	PRO-RATA BUDGET	ACTUAL YTD
	R	R	R	R	R	R	R
SAFEGUARD AND SECURITY	20,267,420	20,908,176	24,679,748	30,950,032	37,924,078	7,401,100	13,889,068

The spending patterns per department are as follows:

EXPENDITURE PER DEPARTMENT	ADOPTED BUDGET 2016/2017	PRO-RATA BUDGET (YTD)	OCTOBER ACTUAL (YTD)	UNDER/ (OVER) EXPENDITURE	% OF PRO-RATA BUDGET OVERSPENT
	R	R	R	R	%
CITY DEVELOPMENT	2,028,600	676,200	157,774	518,426	23%
COMMUNITY SERVICES	9,024,100	3,008,033	5,971,825	(2,963,792)	199%
CORPORATE SERVICES	2,215,700	738,567	1,745,034	(1,006,467)	236%
FINANCIAL SERVICES	1,319,200	439,733	818,525	(378,792)	186%
INFRASTRUCTURE AND TECHNICAL SERVICES	7,595,700	2,531,900	5,195,911	(2,664,011)	205%
OFFICE OF THE MUNICIPAL MANAGER	20,000	6,667	-	6,667	0%
<b>TOTAL</b>	<b>22,203,300</b>	<b>7,401,100</b>	<b>13,889,069</b>	<b>(6,487,969)</b>	<b>188%</b>

It is apparent from the information contained in the table above that the 2016/17 Approved Budget will not be sufficient. The Department concerned needs to investigate the possible reduction of expenditure.

## 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	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
COMMUNITY SERVICES AND HEALTH											
FX011001007	Police Forces, Traffic and Street Parking Co	1,000,000	2,000,000	40,700	3,040,700	1,013,567	9,225	1,117,105	15,332	1,141,662	(128,095)
FX014001003	Solid Waste Removal	1,500,000	4,581,700	-	6,081,700	2,027,233	30,720	2,042,569	-	2,073,289	(46,056)
FX014001004	Street Cleansing	-	4,911,000	-	4,911,000	1,637,000	-	1,654,378	-	1,654,378	(17,378)
Total		2,500,000	11,492,700	40,700	14,033,400	4,677,800	39,945	4,814,052	15,332	4,869,329	(191,529)

#### ❑ Police Forces, Traffic and Street Parking Control

No comments received from user department.

#### ❑ Solid Waste Removal

The month at hand had a holiday and Waste Management works in full capacity during holidays. Holidays are paid under overtime hence it impacts in our expenditure, further more with new service on business means that we cannot just stop service during weekends as this is part of revenue enhancement. The Section has removed some staff members at supervisory level from overtime and standby and will monitor expenditure and service. Section cannot further decrease staff as this will definitely impact negatively on service delivery, therefore this should be addressed during budgeting.

COMMUNITY SERVICES - ENVIRONMENTAL AND RECREATION SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
COMMUNITY SERVICES RECREATION											
FX001001005002	Halls	120,000	56,300	-	176,300	58,767	878	101,496	-	102,374	(43,607)
FX013002004001	Sport Development and Sportfields	320,200	63,200	-	383,400	127,800	-	131,627	-	131,627	(3,827)
FX013001001	Beaches and Jetties	30,400	369,500	-	399,900	133,300	-	156,677	-	156,677	(23,377)
<b>Total</b>		<b>470,600</b>	<b>489,000</b>	<b>-</b>	<b>959,600</b>	<b>319,867</b>	<b>878</b>	<b>389,800</b>	<b>-</b>	<b>390,678</b>	<b>(70,811)</b>

□ **Halls**

The frequent usage in our halls is quiet high. Big events are done in our halls which lead to overtime being an option. The officials has to ensure that Municipal properties are clean, monitored, taken care off and enable the next client to get the facility in a clean and conducive and user friendly condition. Our Facilities has recently refurbished especially Empangeni Hall that has now got new advanced lighting system, sliding doors and air conditioners to be operated by our staff only not the Hirers to avoid recurrence on damages.

□ **Sport Development and Sportfields**

Sport and Recreation Sub-section over-spent on overtime due to rains that have been experienced regularly which at times prevented staff from marking sport field during the week and had to mark on match days which are over weekends. Thanda Royal Zulu FC also had home matches on Sundays and staff had to be on site as per Premier Soccer League requirement.

❑ **Beaches and Jetties**

The weather got warmer straight after winter and resulted in public flocking to the beaches. Facilities being available 7 days a week 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. Cognizance should be taken that each new year the Financial Department is cutting budget for overtime while the demand for overtime is increasing due to the increase in visitors utilizing the beach area during weekends and public holidays.

**5.2 Corporate Services**

**5.2.1 Overtime**

CORPORATE SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
ADMINISTRATION											
FX005001001	Administrative and Corporate Support	225,400	65,000	59,700	350,100	116,700	114,618	-	52,458	167,076	(50,376)
FX004001001001	Mayor & Council	57,600	72,900	-	130,500	43,500	-	80,018	-	80,018	(36,518)
<b>Total</b>		<b>283,000</b>	<b>137,900</b>	<b>59,700</b>	<b>480,600</b>	<b>160,200</b>	<b>114,618</b>	<b>80,018</b>	<b>52,458</b>	<b>247,094</b>	<b>(86,894)</b>

❑ **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.

**Mayor and Council:** Over expenditure was due to the Section conducting loud hailing and meetings held after hours.

### 5.3 Financial Services

#### 5.3.1 Overtime

FINANCIAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
FX005001013	Supply Chain Management	142,100	-	-	142,100	47,367	53,922	648	-	54,570	(7,203)
<b>Total</b>		<b>142,100</b>	<b>-</b>	<b>-</b>	<b>142,100</b>	<b>47,367</b>	<b>53,922</b>	<b>648</b>	<b>-</b>	<b>54,570</b>	<b>(7,203)</b>

#### □ Supply Chain Management

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 are therefore required on rotation basis to be on standby in order to issue breakdown materials after hours to ensure the continuity of service delivery, unfortunately it impossible to budget the exact amount for this unplanned overtime for breakdowns.

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

## 5.4 Infrastructure and Technical Services

### 5.5.1 Overtime

INFRASTRUCTURE AND TECHNICAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
ELECTRICAL SUPPLY SERVICES											
FX002001001004	Electricity and gas Distribution and Planning	5,206,400	-	-	5,206,400	1,735,467	2,107,031	-	-	2,107,031	(371,564)
<b>Total</b>		<b>5,206,400</b>	<b>-</b>	<b>-</b>	<b>5,206,400</b>	<b>1,735,467</b>	<b>2,107,031</b>	<b>-</b>	<b>-</b>	<b>2,107,031</b>	<b>(371,564)</b>

#### □ Electricity and Gas Distribution and Planning

The overtime over-expenditure for October 2016 was due to the list of long duration overtime below:

- 10 September 2016 - Rooibos Rand, Richards Bay - Two Low Voltage cables faulted on one ring. Duration 9 hours.
- 16 September 2016 - Esikhaleni H & J Section - Cygnus substation - Neutral failure on the bundle conductor (neutral conductor faulty) - Duration 4 hours.
- 27 September 2016 - Ubhejane Substation, Ngwelezane - Feeder from the mini substation feeding the bundle burnt. Duration 5 hours.

INFRASTRUCTURE AND TECHNICAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R	R	R	R	R	R	R	R	R
ENGINEERING SUPPORT SERVICES											
FX010001007003	Project Management Unit - Extended Public Works Program			-	-	-	9,610	-		9,610	(9,610)
FX005001005	Fleet Management	518,700	-	-	518,700	172,900	177,093	-	-	177,093	(4,193)
<b>Total</b>		<b>518,700</b>	<b>-</b>	<b>-</b>	<b>518,700</b>	<b>172,900</b>	<b>186,703</b>	<b>-</b>	<b>-</b>	<b>186,703</b>	<b>(13,803)</b>

□ **Fleet Management**

The over expenditure can be attributed to the following factors:

- Excessive age of some of the Fleet items , resulting in more frequent break downs
- Tyre failures as a result of punctures and Blow outs
- Fleet being required to provide Stand-By Generators, without Departments providing a budget against which costs can be reclaimed.
- All overtime is scrutinized and approved by the Workshop Manager.

**INFRASTRUCTURE AND TECHNICAL SERVICES**

**OVERTIME**

FUNCTION	DESCRIPTION	PROPOSED ADJUSTED BUDGET 2016/2017				PRO-RATA PROPOSED ADJUSTED BUDGET (YTD)	ACTUAL OCTOBER 2016 (YTD)				UNDER/ (OVER) EXPENDITURE
		NON- STRUCTURE D	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL		NON- STRUCTURED	STRUCTURE D	SHIFT ADDITIONAL REMUNERATION	TOTAL	
		R	R		R	R	R	R		R	R
<b>WATER AND SANITATION SERVICES</b>											
FX015001002002	Sewerage - Pumpstations	326,600	-	92,900	419,500	139,833	241,889	-	30,883	272,772	(132,939)
FX015001002003	Sewerage - Sewerage Network	4,688,700	-	-	4,688,700	1,562,900	2,143,303	-	-	2,143,303	(580,403)
FX016001002001	Water Distribution - Rural Water	1,377,800	-	-	1,377,800	459,267	1,074,496	-	-	1,074,496	(615,229)
FX016001002002	Water Distribution - Urban Water	1,257,600	-	-	1,257,600	419,200	1,074,496	-	-	1,074,496	(655,296)
<b>Total</b>		<b>7,650,700</b>	<b>-</b>	<b>92,900</b>	<b>7,743,600</b>	<b>2,581,200</b>	<b>4,534,184</b>	<b>-</b>	<b>30,883</b>	<b>4,565,067</b>	<b>(1,983,867)</b>



#### □ **Sewerage – Pumpstation**

Empangeni Group pumps and Reservoirs - Reservoir Readings, Cleaning of screens at pump stations and inspections. This is a daily task done by Empangeni Plumbers. Our section assists them to alternate weekends including public holidays so that their Staff has a weekend off. Arboretum & Alton Macerator - Shortage of staff at both Macerators. Staff is required to work double shifts when staff are off sick/leave. Standby personnel are called out to purchase food for staff working overtime. There are blockages, overflows and electrical problems. Personnel called out after hours at various pump stations. Planned overtime implemented 30/01/2016. Critical pump stations inspected over weekends (Umhlathuze Village2, Hillview, Aquadene 1, Veld n Vlei Main, Meerensee Main, and Arboretum Main). This is a temporary arrangement until the problematic pump stations are upgraded. Please take NOTE the pump stations are near residential areas, this measure is taken to prevent residents from being exposed to sewer and any contamination that could be caused by an overflow.

#### □ **Sewerage – Sewerage Network**

Due to an increased amount of calls received relating to sewer breakdowns, the cost for sewer network maintenance has increased for month of October. Although working hours are monitored and tried upon to be controlled, Due to the nature and environmental concerns/implications of sewer or waste water, the ability to lower/limit costs is often compromised. The other factors which have an impact in breakdowns and negatively influence overtime expenditure are:-

- Vegetation-Tree roots have been found to cause blockages and cracks on several sewer lines;
- Non-sewer/wastewater Compounds- Blockages often occurred due to several items dumped on sewer i.e., Plastics, tin, wood fragments etc;
- Old Sewerage infrastructure- The sewer network systems inability to withstand current waste water disposed.

#### □ **Water Distribution – Rural Water**

It is due to the pipe burst experienced on the water infrastructure. Although Weekly Repairs and Maintenance planned material is conducted on the water pipe repairs system, the Maintenance Plan Schedule is often disturbed by the Burst pipe emergency works requiring immediate attention. Below are several factors influencing the increasing number of Water Distribution disturbances thus increasing expenditure for month October;

- Ageing of our main supply pipes - Mainline pipes are too old, resulting in many pipe leaks;
- No water in a various areas - Most areas in rural areas are supplied by water tankers, due to water crisis at eNseleni our water tankers deliver water over long periods of time and;
- Illegal water connections - Improper connections done by community members to municipality mainline pipes, which later causes problems.

□ **Water Distribution – Urban Water**

Shortage of scour valves in our water reticulation network has been a contributing factor to plumbers working long hours during overtime, for an example after the plumber has isolated the water reticulation line he has to wait approximately 2 hours or more for the line to be empty before commencing work. The other factor which is largely contributing to the overtime is the ageing of water infrastructure which resulting an increase in pipeline failures and breakdowns / pipe burst which occurs even after hours. The other factor that contributes largely is the out dated Arc Reader which makes plumbers to experience difficulties when they locate valves to isolate water pipe burst. Also the delay by Supply chain to source material to repair and TLB or Excavator to expose the pipe burst or water leak also cause plumbers to work long hours during overtime.

As we know City of uMhlathuze is experiencing water shortages and water restriction has commenced, hence water is delivered to communities using water tankers and Jojo's. Water delivery is done till midnight as a result overtime is escalating which is resulting to an over expenditure.

## 6. IN-YEAR BUDGET STATEMENT TABLES

The following monthly budget statement tables (**DMS 1167338**) 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 October 2016.

### 8. **CREDITORS ANALYSIS**

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

### 9. **INVESTMENT PORTFOLIO ANALYSIS**

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

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

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

### 12. **CAPITAL PROGRAMME PERFORMANCE**

Refer to the following tables for the month ended 31 October 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 1170181 (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 mSCOA project.

#### **RECOMMENDED THAT:**

1. the financial position of the uMhlathuze Municipality as at 31 October 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 1167338**) be noted;
2. the comments on the Municipal Standard Chart of Accounts (mSCOA) project status included under point 3.1 of the report be noted; and
3. Council be requested to condone the overtime hours worked above the maximum allowed hours of 15 per week under point 4.2 of the report.