

12421

## FINANCIAL REPORTING AS AT 28 FEBRUARY 2018

*This report served before the Financial Services Portfolio Committee on 25 May 2018.  
The recommendations were supported.*

### PURPOSE

To submit for noting the financial position of the uMhlathuze Municipality as at 28 February 2018, as required in terms of the Municipal Finance Management Act, 2003 (Act No 56 of 2003).

### IDP STRATEGY AND OBJECTIVES

NATIONAL KPA 5 : MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT		
GOALS	OBJECTIVES	STRATEGIES
5.1 Sound Financial and Supply Chain Management	5.1.1 Compliance with financial legislation and policies	5.1.1.1 GRAP compliance
		5.1.1.2 mSCOA compliant
		5.1.1.3 Review of all financial related policies
		5.1.1.4 Compliance with all MFMA and related local government financial legislation
	5.2.1 Sustainable Financial and supply chain Management	5.2.1.1 Provide continuous Internal Communication on Budget and Financial Management matters
		5.2.1.2 Asset Accounting Management
		5.2.1.3 Accurate and timeous billing and receipting of revenue
		5.2.1.4 Apply Adequate Internal controls
		5.2.1.5 Demand and acquisition management
		5.2.1.6 Contracts and Logistics management
		5.2.1.7 Apply adequate financial management methodologies

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

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

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

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

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

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

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

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

These Regulations apply to all Municipalities and Municipal entities and indicate its applicability and relevance to each specific Municipal environment while accommodating organisational uniqueness and structural differences. These regulations 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 the National Treasury.

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

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

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

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

Component 1, comprised of actual revenue collected by source and Component 2, comprised of actual operational and capital expenditure by vote for the month of February 2018 is included under **Annexures Z and AA (DMS 1262477)**.

## **DISCUSSION**

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

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## PART 1 – IN-YEAR REPORTING

### 1. MAYOR'S REPORT FOR THE MONTH – FEBRUARY 2018

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

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

The Mayor has considered the Section 71 report for the month of February 2018, and the performance of the Municipality against its budget is in line with the adjusted budget that was approved by Council in February 2018. A detail of all the points highlighted by the Mayor is included in the report.

#### Operational Budget

The monthly budget statement summary (Table C1) for the month of February 2018 (year to date actual), shows a surplus of R4,7 million. This implies that the municipality has been able to raise its budgeted income and has successfully collected such billed income as well. The performance in this area is **Acceptable**.

#### Capital Budget

Council is in the third quarter of the financial year and capital expenditure is very low at R201 million (35,23%). This is based on the Adjusted Capital Budget of R571 million. Expenditure is expected to rise as the year progresses. The Project steering Committee is monitoring the capital projects to ensure that any issues are resolved promptly. The performance in this area is **NOT Acceptable**. The level of expenditure is supposed to be at least around 67% (R380 million) and administration needs a strategy to expedite expenditure or SCM processes in this regard.

#### 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 2,86:1 (589 533/206 251). Therefore, the Municipality has a positive bank balance to defray its expenses. The performance in this area is **Acceptable**.

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

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

1. The collection of outstanding debt remains a challenge 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. Currently there are meetings conducted at Traditional Authority level where the need for payment of services is emphasised. In these meetings Amakhosi are requesting a meeting with the Municipality leadership to discuss the same;

2. Slow capital expenditure remains a challenge with 35,23% as at February 2018. It is therefore requested that administration works hard to improve on last year's expenditure performance of 93%. Council will carry on monitoring the pattern of this expenditure; and
3. Although the Water Services is showing a deficit of R32,6 million, this has been achieved on Level 4 drought tariffs. When these tariffs are normalised as the drought crisis eases, the expenditure will have to be reduced.

**(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 that the overtime expenditure be managed.

**2. RESOLUTIONS**

Refer to the recommendations contained in this report.

**3. EXECUTIVE SUMMARY**

This section deals with the financial status of the Municipality at executive level and highlights matters that are of particular importance from the Chief Financial Officer's perspective.

**3.1 Status of mSCOA (Municipal Standard Chart of Accounts)**

The status in executive summary form is as follows:

As at the end of February 2018, the business reform required to accommodate mSCOA is moving slowly but surely. In short, primary issues relate to changing the financial systems to adapt technically and the administration to change from a Line Item to a planned Project way of thinking and budgeting for the municipality in service delivery.

From a National Treasury validation perspective, a monthly upload of the financial (and certain non-financial) transactions from the General Ledger are done, which the National Treasury interrogate for integrity purposes. To date Council is 100% correct in terms of financial data, meeting the mSCOA formats correctly, except for some errors relating to non-financial data uploads relating to the IDP and Investments data.

### 3.2 Operating Budget

The following table represents an executive summary for the financial period ended 28 February 2018:

DESCRIPTION	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEB 2018 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Revenue (excluding capital grants)	2,966,893,600	1,977,929,067	1,835,272,603	92.79%
Add: Incorrect Accrual Journal	-	-	48,600,000	0.00%
Capital Grants and Subsidies	(151,738,800)	(101,159,200)	-	0.00%
Gains on Disposal of PPE	-	-	(4,267,397)	0.00%
<b>Adopted Revenue Budget</b>	<b>2,815,154,800</b>	<b>1,876,769,867</b>	<b>1,879,605,207</b>	<b>100.15%</b>
Expenditure	2,878,250,200	1,918,833,467	1,919,806,391	100.05%
Add: Mhlathuze Water invoice for January 2018	-	-	9,791,250	0.00%
less: Duplicate Eskom	-	-	(54,719,600)	0.00%
<b>Adopted Expenditure Budget</b>	<b>2,878,250,200</b>	<b>1,918,833,467</b>	<b>1,874,878,041</b>	<b>97.71%</b>
<b>Surplus/(Deficit)</b>	<b>(63,095,400)</b>	<b>(42,063,600)</b>	<b>4,727,166</b>	

As can be seen from the table above, Actual Surplus for the month ended 28 February 2018 is significantly higher than the Budgeted Deficit. Significant factors that distort these numbers to show a higher surplus are mostly related to timing matters:

1. Although the municipality is in the third quarter of the financial year, it has received 75% of its equitable share i.e. R24,3 million overstated.
2. Of the three high season months for electricity tariffs two months (July and August) have already been received.
3. It is important to note that a large number of vacant posts were advertised in the period September to November 2017 and these posts have been filled in February 2018 and others will be filled in March 2018.
4. It has to be noted that the surplus above is not the same as the C-schedule due to duplicated Eskom transaction and incorrect accrual journal (as shown above). These errors will be corrected in the month of April 2018.

Therefore, this surplus will reduce over the coming months.

### 3.3 Cash Flow Situation

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

In terms of Council's Adopted Working Capital Policy the objective is for Working Capital to be two (2) times the average monthly creditors of the municipality. This ratio currently sits at 2,86:1 (589 533/206 251).

#### **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:  $[(92\,572 - 14\,998 - 9\,002) + 520\,961] / (2\,878\,250 - 376\,848 - 26\,388) / 12$  which currently sits at 2,86:1.

It bears noting that in terms of both Council's Policy and the National Treasury MFMA Circular 71, the City of uMhlathuze has suitable cash coverage.



### 3.4 Grants Balances

DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2017	AMOUNT GAZETTED FOR AUGUST 2017	AMOUNT GAZETTED FOR SEPTEMBER 2017	AMOUNT GAZETTED FOR OCTOBER 2017	AMOUNT GAZETTED FOR NOVEMBER 2017	AMOUNT GAZETTED FOR DECEMBER 2017	AMOUNT GAZETTED FOR JANUARY 2018	TOTAL TO BE RECEIVED AS AT 30/06/2018	AMOUNT RECEIVED AS AT 28/02/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 28/02/2018	% SPENT	COMMENTS
<b>NATIONAL TREASURY</b>													
Equitable Share	121,671,000		-	-	-	97,336,000	-	292,009,000	219,007,000	73,002,000	194,672,666.67	67%	In terms of the Constitution, this allocation is to provide for an equitable sharing of National Revenue. It is primarily for the provision of Basic Services
Municipal Infrastructure Grant	16,000,000		-	-	-	44,000,000	-	108,742,000	60,000,000	48,742,000	53,211,822	89%	This expenditure is as per claims submitted to COGTA
Financial Management Grant	2,650,000		-	-	-	-	-	2,650,000	2,650,000	-	1,449,555	55%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Water Service Infrastructure Grant-WSIG			-	20,200,000	-	-	-	34,000,000	20,200,000	13,800,000	32,328,750	95%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Extended Public Works Programme		1,036,000	-	-	1,864,000	-	-	4,143,000	4,143,000	-	3,489,508	84%	The grant is for the operational expenditure for EPWP
Infrastructure Skills Development Grant	2,500,000		-	-	-	-	4,000,000	6,500,000	6,500,000	-	2,251,822	35%	Spending is in accordance with the support plan submitted to National Treasury for the grant
Integrated National Electrification Grant	6,000,000		-	4,000,000	-	-	-	10,000,000	10,000,000	-	3,301,022	33%	The INEG is a project based grant administered by DOE for the electrification of poor households
Municipal Demarcation Transitional Grant	1,142,000		1,141,000	-	-	-	-	3,424,000	2,283,000	1,141,000	3,749,272	109%	This grant is for the dis-establishment of Ntambanana Municipality. Additional allocation R 2 785 000 to be received in terms of DORA amendment act
<b>TOTAL NATIONAL TREASURY GRANTS</b>	<b>149,963,000</b>	<b>1,036,000</b>	<b>1,141,000</b>	<b>24,200,000</b>	<b>1,864,000</b>	<b>141,336,000</b>	<b>4,000,000</b>	<b>461,468,000</b>	<b>324,783,000</b>	<b>136,685,000</b>	<b>294,454,418</b>	<b>64%</b>	

NOTES:

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DESCRIPTION OF GRANT	AMOUNT GAZETTED FOR JULY 2017	AMOUNT GAZETTED FOR AUGUST 2017	AMOUNT GAZETTED FOR SEPTEMBER 2017	AMOUNT GAZETTED FOR OCTOBER 2017	AMOUNT GAZETTED FOR NOVEMBER 2017	AMOUNT GAZETTED FOR DECEMBER 2017	AMOUNT GAZETTED FOR JANUARY 2018	TOTAL TO BE RECEIVED AS AT 30/06/2018	AMOUNT RECEIVED AS AT 28/02/2018	DIFFERENCE	ACTUAL EXPENDITURE AS AT 28/02/2018	% SPENT	COMMENTS
<b>PROVINCIAL TREASURY</b>													
Provincialisation of Libraries	-	-	7,881,000	-	-	-	-	7,881,000	7,881,000	-	14,174,228	180%	The total cost of libraries is indicated in the total expenditure column, However council only receives a subsidy from KZN Provincial library services this means that Council must fund the balance from Rates and General services
Community Library Services Grant (Cyber cadets)	-	-	1,504,000	-	-	-	-	1,504,000	1,504,000	-	922,492	61%	Expenditure shown is the total operating cost of the Cybercadets for the period, Expenditure is on track.
Housing Operating Account	-	-	2,628,000	-	-	-	-	2,628,000	1,316,040	1,311,960	8,697,704	331%	Expenditure shown is the total operating cost of the Human Settlements Section excluding Hostel Operating costs. Council is required to co-fund Human Settlement cost
Museum Subsidy	-	-	183,000	-	-	-	-	183,000	183,000	-	4,943,726	2701%	The total cost of Museum is indicated in the total expenditure column, However council only receives a subsidy from KZN Provincial Library Services this means that council must fund the balance from Rates and General services
<b>TOTAL PROVINCIAL TREASURY GRANTS</b>	-	-	12,196,000	-	-	-	-	12,196,000	10,884,040	1,311,960	28,738,150	236%	
<b>TOTAL GRANTS AND SUBSIDIES</b>	149,963,000	1,036,000	13,337,000	24,200,000	1,864,000	141,336,000	4,000,000	473,664,000	335,667,040	137,996,960	323,192,568	68%	

### 3.5 Capital Budget Summary

The table below represents Capital Expenditure incurred as at 28 February 2018:

<b>FUNCTION</b>	<b>ADJUSTED BUDGET</b>	<b>ACTUAL FEB 2018 (YTD)</b>	<b>% OF ADJUSTED BUDGET SPENT</b>
	<b>R</b>	<b>R</b>	<b>%</b>
Finance and Administration	125,321,500	40,876,599	46.42%
Community and Social Services	31,912,400	4,829,171	13.52%
Energy Sources	92,796,200	20,380,780	18.90%
Executive and Council	119,000	73,136	61.46%
Environmental Protection	739,900	-	0.00%
Planning and Development	22,142,800	6,073,545	33.94%
Public Safety	7,242,000	4,347,518	64.77%
Road Transport	103,195,300	45,980,827	50.81%
Sport and Recreation	19,470,300	4,930,158	26.88%
Waste Management	2,492,000	281,544	11.30%
Waste Water Management	72,989,600	29,420,946	35.23%
Water	92,083,800	43,791,950	37.46%
	<b>570,504,800</b>	<b>200,986,174</b>	<b>35.34%</b>

The total adopted Capital Budget funding structure is as follows:

<b>SOURCE OF FUNDING</b>	<b>ADJUSTED BUDGET</b>	<b>ACTUAL FEB 2018 (YTD)</b>	<b>% OF ADJUSTED BUDGET SPENT</b>
	<b>R</b>	<b>R</b>	<b>%</b>
Borrowing	109,968,500	54,179,705	49.27%
Capital Replacement Reserve	312,797,500	80,415,186	25.81%
MIG	103,304,800	35,110,760	33.99%
Government Grants - National	44,434,000	31,280,523	71.09%
<b>TOTAL</b>	<b>570,504,800</b>	<b>200,986,174</b>	<b>35.34%</b>

### 3.6 Expenditure per Category

The table below represents operating expenditure per category incurred as at 28 February 2018:

EXPENDITURE BY TYPE	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEB 2018 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Employee related costs	716,067,400	477,378,267	465,268,511	97.46%
Remuneration of Councillors	29,533,100	19,688,733	19,646,857	99.79%
Debt Impairment	26,387,500	17,591,667	17,591,667	100.00%
Depreciation and asset impairment	376,848,000	251,232,000	251,236,866	100.00%
Finance Charges	73,638,800	49,092,533	49,171,683	100.16%
Bulk Purchases - Electricity	847,516,600	565,011,067	622,613,485	110.19%
Bulk Purchases - Water	120,000,000	80,000,000	80,102,675	100.13%
Other Materials	68,822,200	45,881,467	49,659,080	108.23%
Contracted Services	229,956,500	153,304,333	173,868,344	113.41%
Transfers and grants	12,161,200	8,107,467	7,435,326	91.71%
Other Expenditure	377,318,900	251,545,933	183,211,897	72.83%
<b>TOTAL</b>	<b>2,878,250,200</b>	<b>1,918,833,467</b>	<b>1,919,806,391</b>	<b>100.05%</b>
<b>Add:</b> Mhlathuze Water invoice for January 2018	-	-	9,791,250	0.00%
<b>less:</b> Duplicate Eskom	-	-	(54,719,600)	0.00%
<b>TOTAL</b>	<b>2,878,250,200</b>	<b>1,918,833,467</b>	<b>1,874,878,041</b>	<b>97.71%</b>

#### **Bulk Purchases – Electricity**

Electricity purchases are higher in July and August due to the increased tariff charged by Eskom in the winter months. Corresponding increase in revenue is expected during the same period.

### 3.7 Revenue per Category

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

REVENUE BY SOURCE	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEB 2018 (YTD)	% PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	%
Rates	445,589,200	297,059,467	307,576,975	103.54%
Service Charges – Electricity revenue	1,378,874,300	919,249,533	864,584,605	94.05%
Service Charges – Water revenue	310,516,400	207,010,933	238,495,442	115.21%
Service Charges – Refuse revenue	94,737,400	63,158,267	65,238,169	103.29%
Service Charges – Sanitation revenue	93,197,200	62,131,467	61,493,200	98.97%
Rental of facilities and equipment	8,008,100	5,338,733	4,444,191	83.24%
Interest earned – external investments	52,001,400	34,667,600	41,021,527	118.33%
Interest earned – outstanding debtors	52,800	35,200	59,883	170.12%
Fines	6,763,000	4,508,667	4,564,561	101.24%
Licences and permits	3,609,000	2,406,000	2,582,745	107.35%
Agency services	7,390,000	4,926,667	4,203,671	85.32%
Operating Grants and Subsidies	328,710,200	219,140,133	231,008,429	105.42%
Capital Grants and Subsidies	151,738,800	101,159,200	-	0.00%
Gains on Disposal of PPE	-	-	4,267,397	0.00%
Other Revenue	85,705,800	57,137,200	5,731,809	10.03%
<b>TOTAL REVENUE</b>	<b>2,966,893,600</b>	<b>1,977,929,067</b>	<b>1,835,272,603</b>	<b>92.79%</b>
<b>Add: Incorrect Accrual Journal</b>	-	-	48,600,000	0.00%
<b>Less: Capital Revenue</b>				
Gains on Disposal of PPE	-	-	(4,267,397)	0.00%
Capital Grants and Subsidies	(151,738,800)	(101,159,200)	-	0.00%
<b>TOTAL OPERATING REVENUE</b>	<b>2,815,154,800</b>	<b>1,876,769,867</b>	<b>1,879,605,207</b>	<b>100.15%</b>

The above table represents operating revenue per category as at 28 February 2018.

### 3.8 Surplus and Deficit by Service Category

SERVICES	ADJUSTED BUDGET 2017/2018			ACTUAL AS AT 28 FEBRUARY 2018		
	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	7,747	29,916	(22,169)	282	15,970	(15,688)
Finance and Administration	523,415	67,769	455,646	346,807	60,442	286,365
Community and Social Services	16,034	86,336	(70,302)	11,769	50,079	(38,310)
Sport and Recreation	29,385	146,441	(117,056)	2,537	88,568	(86,031)
Public Safety	4,099	67,835	(63,736)	527	40,632	(40,105)
Housing	4,789	18,216	(13,427)	(45)	11,831	(11,876)
Environmental Protection	165	8,925	(8,760)	-	5,693	(5,693)
Health			-	-	-	-
Planning and Development	19,654	87,689	(68,035)	6,427	49,019	(42,592)
Internal Audit	31	(331)	362	-	(2,165)	2,165
Road Transport	37,372	299,842	(262,470)	7,910	182,190	(174,280)
Waste Water Management (Sanitation) (Portion of PMU funded by Rates & General Services)	94	27,835	(27,741)	-	17,371	(17,371)
Other	121	6,112	(5,991)	1	4,107	(4,106)
<b>Total Rates and General Services</b>	<b>642,906</b>	<b>846,585</b>	<b>(203,679)</b>	<b>376,215</b>	<b>523,737</b>	<b>(147,522)</b>
<b>Airport</b>	<b>697</b>	<b>807</b>	<b>(110)</b>	<b>-</b>	<b>538</b>	<b>(538)</b>
<b>Trading Services</b>						
Electricity	1,406,107	1,188,000	218,107	916,190	778,184	138,006
Water	479,543	482,854	(3,311)	302,780	335,409	(32,629)
Clarified Water	21,564	16,756	4,808	19,250	14,230	5,020
Sewerage	258,104	194,233	63,871	156,324	142,082	14,242
Refuse Removal	157,976	149,016	8,960	108,846	80,696	28,150
<b>Total Trading Services</b>	<b>2,323,294</b>	<b>2,030,859</b>	<b>292,435</b>	<b>1,503,390</b>	<b>1,350,601</b>	<b>152,789</b>
<b>Total Service Category</b>	<b>2,966,897</b>	<b>2,878,251</b>	<b>88,646</b>	<b>1,879,605</b>	<b>1,874,876</b>	<b>4,729</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, Clarified Water, Sewerage and Refuse Removal are expected to be profitable **only Electricity, Sewerage and Refuse services are yielding surpluses. Water is yielding a deficit despite the revenue being inflated by drought tariffs.**

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 and increasing revenue. For Rates, the primary solution is to reduce expenditures in specific areas that are Rates dependant.

From a sustainability perspective, it is of particular concern that all functions funded by Rates and General Income are not breaking even. **The dependency on Electricity Revenue alone is of great risk. Firstly, it is more susceptible to economic fluctuations compared to Rates income and secondly, Council needs to keep Electricity Tariffs for business at competitive prices to stimulate economic development. Keeping the Municipality afloat through Electricity alone is a risk to financial sustainability.**

### 3.9 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	7,248,365	164,159	(114,599)	10,558,882	17,856,807
Business	188,279,757	3,856,579	1,374,207	56,142,735	249,653,278
Households	58,181,456	5,127,582	4,536,433	109,687,513	177,532,984
Other	1,276,220	313,234	294,823	9,158,451	11,042,728
<b>Total</b>	<b>254,985,798</b>	<b>9,461,554</b>	<b>6,090,864</b>	<b>185,547,581</b>	<b>456,085,797</b>
<b>%</b>	<b>55.91%</b>	<b>2.07%</b>	<b>1.34%</b>	<b>40.68%</b>	

### FINANCIAL REPORTING ON INCOME / DEBT

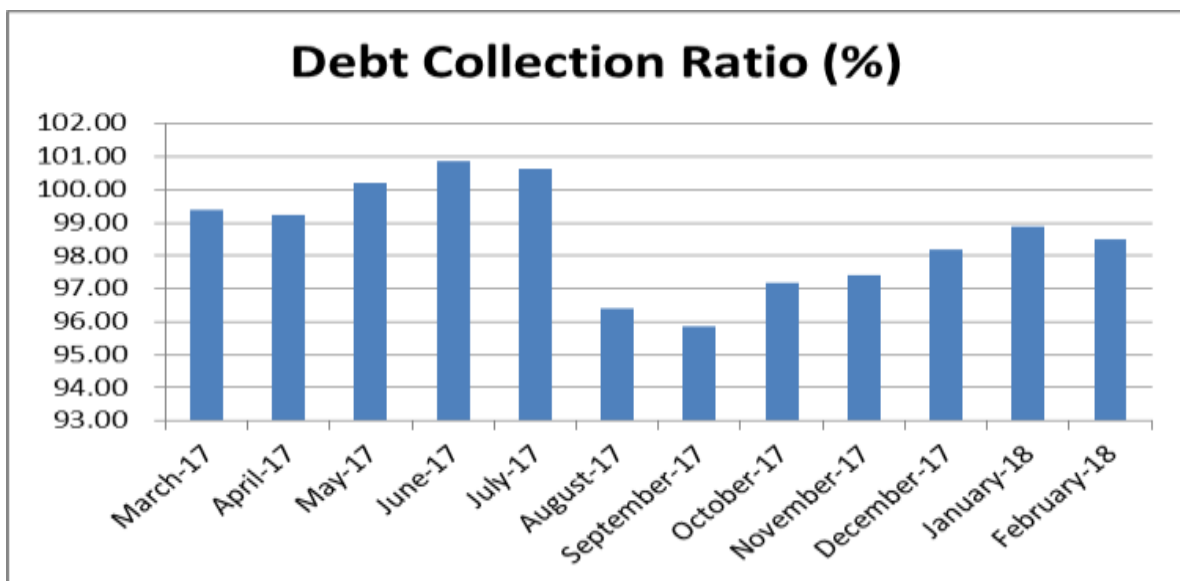
Section 216 (1)(c) of the Constitution and Section 2 of the Municipal Finance Management Act (MFMA) enable National Treasury to introduce uniform Treasury norms and standards to ensure sound and sustainable management of fiscal and financial affairs of municipalities and municipal entities. The National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

➤ **Debt Collection Rate**

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

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

<b>Month</b>	<b>Debt Collection Ratio (%)</b>
February-18	98.48
January-18	98.90
December-17	98.20
November-17	97.40
October-17	97.19
September-17	95.85
August-17	96.41
July-17	100.63
June-17	100.88
May-17	100.19
April-17	99.24
March-17	99.39





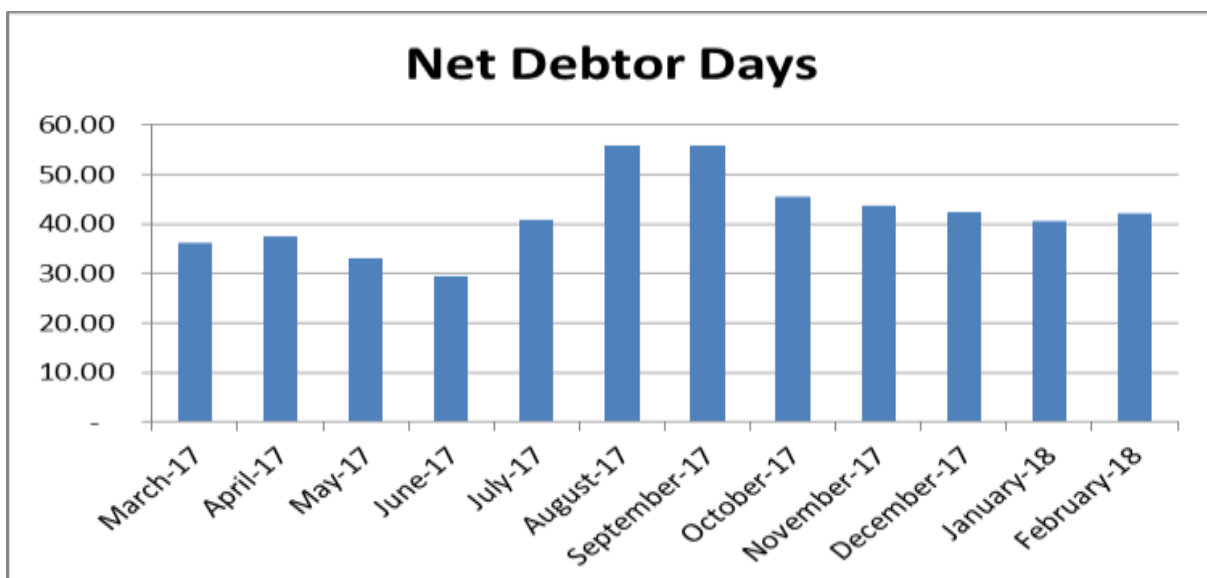
➤ **Net Debtors Days**

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

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

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

<b>Month</b>	<b>Net Debtor Days</b>
February-18	42.17
January-18	40.40
December-17	42.28
November-17	43.70
October-17	45.45
September-17	55.66
August-17	55.90
July-17	40.70
June-17	29.52
May-17	33.05
April-17	37.44
March-17	36.20



➤ **Top Ten Business Debts**

<b>TOP 10 DEBTORS</b>			
<b>Debtor No</b>	<b>Name</b>	<b>90 days +</b>	<b>Grand Total</b>
1854904	BASFOUR 3721 (PTY) LTD	22,377,590	22,377,590
1610626	TISAND (PTY) LTD	4,563,097	4,611,789
2289941	PANDA PETROLEUMS	4,989,564	5,017,869
1929003	ZOTEC DEVELOPMENT(PTY)LTD	3,192,360	3,192,360
416383	RIVER ROCK INVEST (PTY) LTD	2,091,310	2,330,445
392020	RIVER ROCK INVEST (PTY) LTD	1,035,264	1,912,594
1940649	SHIFTING SANDS PROPERTY INVESTMENTS	631,581	729,631
1317138	KING CETSHWAYO DISTRICT MUNICIPALITY	529,967	1,183,430
2024857	KING CETSHWAYO DISTRICT MUNICIPALITY	734,463	657,667
1249632	BEST CUT MEAT (PTY) LTD	1,610,295	2,550,284
		<b>41,755,492</b>	<b>44,563,660</b>

**MATTERS BEING HANDLED BY THE DEPARTMENT: FINANCIAL SERVICES**

**1. BASFOUR 3721 (PTY) LTD**

The administration around this legal process is managed by the Department: Financial Services. Basfour 3721 (Pty) Ltd / Indlovu Dev Trust Trustees is the account for the commission in respect of the 40% on sales above the agreed threshold in respect of the Golf Estate. The developer disputed the account. The dispute is of a contractual nature. The account was handed over to Council's attorneys. Summons was issued and the case was defended. The setting down of the court date by the Registrar of the High Court for the claim is still awaited.

**Update February 2018**

There is no further progress as the court date is awaited.

**2. TISAND (PTY) LTD**

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.

**Update February 2018**

There is no further progress to report.

### **3. BEST CUT MEAT (PTY) LTD**

The account relates to an electricity and water account for the Best Cut Factory in Empangeni. The debtor advised that the full account will be paid as a transaction is pending that will enable them to do so. The payment arrangement was concluded and substantial first payment was received.

#### **Update February 2018**

The debtor did not honour the payment arrangement and the electricity to the factory was disconnected. The account was also handed over to Council's attorneys for further collection.

### **4. SHIFTING SANDS (PTY) LTD**

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. Payment arrangements to settle the account in instalments were made.

#### **Update February 2018**

The debtor is honouring the arrangement and paying in instalments.

### **5. ZOTEC DEVELOPMENT (PTY) LTD**

Zotech Development (Pty) Ltd refers to an account for contribution charges after the development of the Old Mill Estate in Empangeni. The developer disputed the charges. The matter is set down for Arbitration. The Legal Services advised that the matter was referred to arbitration. Upon hearing the matter, it became clear that Council did not have in its possession information that was required to substantiate the total amount claimed because employees that were dealing with this agreement had left the employ of the Council. The Arbitrator, Mr Crampton, acknowledged that there were amounts that were due to Council in respect of contributions. He concluded with an order that Zotech should pay Council an amount of R820 000. This amount was paid into Council's account when the arbitration was finalised in 2016.

#### **Update February 2018**

The balance on the account must be reversed by the Department: Financial Services. The reversal is still outstanding.

### **6 PANDA PETROLEUMS**

This debt is in respect of the rental of the town land for the proposed truck stop in Alton. The debtor's failure to adhere to the agreement has been reported to the Deputy Municipal Manager: City Development, Property Division to give the debtor notice in terms of the agreement. The debtor's account was handed over to Council's attorneys for collection but the file was pended under request from the Legal Section who advised that they will be dealing with the matter. Legal Services (Litigation Sub-section) advised that it is their view that collection proceedings should proceed. It was confirmed that the agreement between Council and Panda Petroleum was terminated on 12 October 2017 (**DMS 1234550**). Subsequent to the termination, Panda Petroleum requested Council to consider amendment of the lease agreement. This request was considered to be out of time.

## **Update February 2018**

The legal collection process is proceeding.

### **MATTERS OUTSTANDING FROM THE DEPARTMENTS: CORPORATE SERVICES – LEGAL SERVICES AND CITY DEVELOPMENT**

#### **1. RIVER ROCK INVESTMENTS (PTY) LTD**

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

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

Legal Services advised that on 9 January 2018, River Rock Investments (Pty) Ltd served the municipality with summons wherein they are disputing that the lease expired on 31 May 2017 and the lease is on a month-to-month period until such time that the lease is allocated to another party. The contract made provision that the contract must be renewed at least 12 calendar month prior to the termination date and River Rock Investments (Pty) Ltd failed to exercise that option.

## **Update February 2017**

There is no progress to the report.

#### **2. KING CETSWHAYO DISTRICT MUNICIPALITY**

The charges relate to a sundry charge levied against one of the accounts of the King Cetshwayo District Municipality. It relates to the damage caused to the fibre optic cable at the Cemetery. King Cetshwayo District Municipality's officials indicated in correspondence that there has been some agreement with the contractor and Council. Legal Services Section advised that they are dealing with the matter. A meeting was held with King Cetshwayo District Municipality representatives and the Contractor to discuss the issue and to find a solution. At the meeting, the contractor disputed certain items that Council is claiming from him as unnecessary and request that further proof be provided by Council's contractor who conducted the repair work. Further details of clarity have been requested from Council's contractor.

## **Update February 2018**

The matter is still ongoing.

### **MATTERS OUTSTANDING FROM THE DEPARTMENTS: COMMUNITY SERVICES AND CITY DEVELOPMENT**

#### **UTHUNGULU DISTRICT DEPARTMENT OF HEALTH**

The account is respect of the rates, services and sundry expenses for the municipal clinics that have been taken over by the Department of Health.

The agreement(s) with the Department are still in process. The accounts will only be paid once the agreements are finalised.

## **Government Debt**

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

<b>Government Departments - Summary of ALL Debt</b>									
<b>Government Department</b>	<b>0-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91 - 120 Days</b>	<b>121 - 150 Days</b>	<b>151 -180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
National	3,840,883	75,421	16,864	-1,812	-2,778	8,451	1,290,607	1,079,980	6,307,616
Provincial	4,292,983	746,205	52,746	443,522	180,786	255,873	4,655,927	4,172,357	14,800,399
<b>Totals</b>	<b>8,133,866</b>	<b>821,626</b>	<b>69,610</b>	<b>441,710</b>	<b>178,008</b>	<b>264,324</b>	<b>5,946,534</b>	<b>5,252,337</b>	<b>21,108,015</b>
<b>National Departments</b>	<b>0-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91 - 120 Days</b>	<b>121 - 150 Days</b>	<b>151 -180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Public Works	3,834,480	69,018	10,461	-2,440	-3,168	2,741	581,305	993,740	5,486,137
Rural Development & land Reform	6,404	6,404	6,404	628	389	5,710	709,302	86,240	821,481
<b>Provincial Departments</b>	<b>0-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91 - 120 Days</b>	<b>121 - 150 Days</b>	<b>151 -180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Public Works	68,012	55,840	89,269	72,364	15,272	34,838	3,703,355	2,836,158	6,875,108
Education	1,951,583	457,382	-209,428	69,461	29,218	13,643	606,458	528,130	3,446,447
Human Settlement	24,537	24,509	26,618	21,763	9,489	3,420	121,736	853,219	1,085,291
Department of Transport	136,471	-	32,055	-	-	-	-	-	168,526
Department of Health	2,057,736	153,227	129,617	263,340	110,260	187,385	180,981	-45,157	3,037,389
COGTA	16,447	16,481	16,669	16,594	16,547	16,586	43,398	-	142,722
Department of Social Welfare	32,920	-	-	-	-	-	-	-	32,920
Department of Agriculture	5,278	6,711	-	-	-	-	-	-	11,989
SANRAL	-	-	-	-	-	-	-	8	8
<b>Other Organs of State</b>	<b>0-30 Days</b>	<b>31-60 Days</b>	<b>61-90 Days</b>	<b>91 - 120 Days</b>	<b>121 - 150 Days</b>	<b>151 -180 Days</b>	<b>181 Days-1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Transnet	2,491,997	389,953	352,267	209,441	222,920	200,512	698,701	84,864	4,650,655
ESKOM	142,044	31,564	16,897	1,691	1,252	1,241	3,798	-	198,487
Ingonyama Trust Board	17,029	16,212	16,212	14,222	9,040	7,374	624,165	3,740,079	4,444,333
Telkom	199,246	-	137	-	-	-	-	-	199,383
Foskor	15,574,565	2,215,478	1,210,598	-	-	-	-	-	19,000,641
SA Post Office	55,917	-	-	-	-	-	-	-	55,917

## Comments Regarding Government Debt

A special workshop on Government Debt was held at Council offices, facilitated by Provincial Treasury. A special programme is in place with the objective to provide a final resolve to all government debt. The results of the programme will become clearer during this financial year. The co-operation between the different government departments is very good and positive results can be expected. The majority of the government accounts in respect of rates for the 2017/2018 financial year have now been paid. Formal notice of disconnection of services was sent to the Provincial Department of Public Works. They advised that there is no budget available to pay the accounts and that it will only become available in April.

### Update February 2018

The disconnections did not proceed as an undertaking was received that payment will be made in April after the new budget allocations are received. Further meetings were also held with officials from Provincial Treasury that is assisting in trying to resolve the outstanding accounts.

#### 6.1 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 R118 129,98 as per **Annexure AB - DMS 1262477**.

Councillor's debt amounts to R87 037,09 as per **Annexure AC - DMS 1262477**.

#### 7. EXCEPTION REPORTING ON OPERATING EXPENSES - FOR ENTIRE MUNICIPALITY

The Chief Financial Officer will highlight the important observations on the operating expenditure in this Section, whereafter 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.**

#### 7.1 Employee related costs

The total employee related expenditure including overtime is within budgetary limits. A concerted effort has been made by the Municipal Manager and the Deputy Municipal Managers to reduce overtime expenditure.

### 7.1.1 Employee Related Costs – Overtime

Below is a table indicating overtime expenditure at the request of Council, which allows for this expenditure to be monitored and managed on a monthly basis:

EXPENDITURE PER CATEGORY	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA ADJUSTED BUDGET SPENT
		R	R	R	%
Overtime - Non-structured	24,520,000	16,346,667	17,076,273	(729,606)	104%
Overtime - Structured	15,569,200	10,379,467	11,148,418	(768,952)	107%
Shift Additional Remuneration	2,414,400	1,609,600	1,826,180	(216,580)	113%
<b>TOTAL</b>	<b>42,503,600</b>	<b>28,335,733</b>	<b>30,050,872</b>	<b>(1,715,139)</b>	<b>106%</b>

The table below represents the expenditure incurred on overtime for each department for the month of February 2018. The relevant departments have supplied the comments for the over-expenditure incurred on overtime:

DEPARTMENT	ADJUSTED BUDGET 2017/2018	PRO-RATA ADJUSTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (YTD)	(OVER)/ UNDER EXPENDITURE	% OF PRO-RATA ADJUSTED BUDGET SPENT
	R	R	R	R	%
Community Services	20,150,800	13,433,867	15,279,392	(1,845,526)	114%
Corporate Services	664,600	443,067	486,244	(43,178)	110%
Financial Services	159,600	106,400	91,276	15,124	86%
Infrastructure and Technical Services	21,508,900	14,339,267	14,189,289	149,978	99%
Office of the Municipal Manager	19,700	13,133	4,670	8,463	0%
<b>Total</b>	<b>42,503,600</b>	<b>28,335,733</b>	<b>30,050,872</b>	<b>(1,715,139)</b>	<b>106%</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 1 December 2015, Council resolved that:

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

During the period February 2018 the employees in the following functions worked overtime of more than 10 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 1262477**).

The following table sets out the applicable information:

None

## 7.2 Volume of Transfers

Type of Transfer of Funds	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Total Number of Transfers
Capital	0	13	11	9	11	32	34	4	114
Operating	4	38	99	40	158	45	12	21	417
<b>Total</b>	<b>4</b>	<b>51</b>	<b>110</b>	<b>49</b>	<b>169</b>	<b>77</b>	<b>46</b>	<b>25</b>	<b>531</b>

Department	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Total Value of Transfers
City Development	-	2,000	-	369,900	47,600	232,300	44,500	3,250,000	3,946,300
Community Services - Health and Public Safety	-	27,000	1,611,000	970,300	990,900	2,168,400	1,821,000	227,000	7,815,600
Corporate Services	61,000	785,500	12,864,700	909,000	1,215,200	26,625,700	1,826,700	33,300	44,321,100
Financial Services	15,000	24,100	1,427,000	4,500	133,600	2,721,000	-	11,600	4,336,800
ITS - Electrical Supply Services	-	8,000	26,347,100	13,933,500	12,784,500	14,596,300	2,000,000	-	69,669,400
ITS - Engineering Support Services	-	426,900	1,583,200	800	180,000	615,900	-	360,000	3,166,800
ITS - Roads and Stormwater	14,000	1,947,400	10,059,500	560,000	4,760,700	3,932,300	-	-	21,273,900
ITS - Water and Sanitation Services	-	18,700	25,500,800	231,600	42,901,400	12,994,000	829,000	9,200	82,484,700
Office of The Municipal Manager	-	-	1,671,500	15,000	480,700	52,500	47,000	4,000	2,270,700
<b>Total</b>	<b>90,000</b>	<b>3,239,600</b>	<b>81,064,800</b>	<b>16,994,600</b>	<b>63,494,600</b>	<b>63,938,400</b>	<b>6,568,200</b>	<b>3,895,100</b>	<b>239,285,300</b>

The table indicated above shows the Virements received by Financial Services in February 2018 from the various departments.



### 7.3 Exception reporting - Specific Line items

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

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	
LINE ITEM	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	YEAR ACTUAL	ACTUAL YTD	PRO-RATA ADJUSTED BUDGET FEBRUARY 2018	ACTUAL YTD 28/02/2018
	R	R	R	R	R	R	R
SAFEGUARD AND SECURITY	20,908,176	24,679,748	30,950,032	37,924,078	46,469,620	30,272,200	30,236,308

The spending patterns per department are as follows:

DEPARTMENT	ADJUSTED BUDGET 2016/2017	PRO-RATA ADJUSTED BUDGET (YTD)	FEB ACTUAL (YTD)	% OF ADJUSTED BUDGET OVERSPENT
	R	R	R	R
CITY DEVELOPMENT	2,062,800	1,375,200	1,464,495	106%
COMMUNITY SERVICES	19,219,700	12,813,133	11,729,486	92%
CORPORATE SERVICES	5,961,300	3,974,200	4,844,543	122%
FINANCIAL SERVICES	2,544,400	1,696,267	2,092,435	123%
ENERGY AND ELECTRICAL SOURCES	3,157,800	2,105,200	2,829,990	134%
INFRASTRUCTURE SERVICES	12,462,300	8,308,200	7,275,359	88%
<b>TOTAL</b>	<b>45,408,300</b>	<b>30,272,200</b>	<b>30,236,308</b>	<b>100%</b>

It is apparent from the information contained in the table above that the 2017/18 Adjusted Adopted Budget will not be sufficient. The Departments concerned need to investigate the possible reduction of expenditure. The security services that are currently being paid for must either reduce or additional funding is to be provided to ensure that sufficient budget is available to meet the monthly contractual obligations.

The Deputy Municipal Manager: Community Services has drafted a report (RPT 163634) on the analysis of security expenditure and will be recommending certain cost cutting measures.

## 8. EXCEPTION REPORTING - DEPARTMENTAL

### 8.1.1 Community Services, Health and Public Safety and Recreational and Environmental Services

#### 8.1.2 Overtime

COMMUNITY SERVICES, HEALTH AND PUBLIC SAFETY											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (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											
FX011001005	Fire Fighting and Protection	572,300	-	1,789,400	2,361,700	1,574,467	387,503	-	1,353,547	1,741,049	(166,583)
FX012001001	Police Forces, Traffic and Street Parking Co	1,267,500	2,393,400	94,300	3,755,200	2,503,467	1,385,148	1,196,672	69,220	2,651,040	(147,574)
FX005001012	Security Services	272,900	-	261,900	534,800	356,533	200,212	-	202,562	402,774	(46,241)
FX012001005	Taxi Ranks	115,500	-	-	115,500	77,000	93,598	-	-	93,598	(16,598)
FX014001003	Solid Waste Removal	41,700	6,388,600	-	6,430,300	4,286,867	9,360	5,050,053	-	5,059,413	(772,546)
FX014001004	Street Cleansing	-	4,654,700	-	4,654,700	3,103,133	-	3,453,421	-	3,453,421	(350,287)
FX015001001	Public Toilets	196,600	-	-	196,600	131,067	147,988	-	-	147,988	(16,921)
<b>Total</b>		<b>2,466,500</b>	<b>13,436,700</b>	<b>2,145,600</b>	<b>18,048,800</b>	<b>12,032,533</b>	<b>2,223,809</b>	<b>9,700,145</b>	<b>1,625,329</b>	<b>13,549,283</b>	<b>(1,516,750)</b>

#### ☐ Fire Fighting and Protection

No comments provided.

□ **Police Forces, Traffic and Street Parking and Security Services**

Overtime worked by Public Safety and Security was catered for during the 2017/2018 budget planning process. However, Public Safety and Security Section has been inundated with numerous unplanned events in December, where it necessitated the ad hoc deployment of personnel including special operations such as alcohol road blocks etc. The roads network need extensive coverage even during the public holidays i.e. 16, 25 and 26 December, etc. The Last Dance and the Beach Festival events are gaining a lot of momentum and popularity, thus attracting many tourists/visitors which requires special attention in regards to law-enforcement among other matters. Moreover, the work of the Traffic Officers and Traffic Wardens is classified as an essential service. Such work cannot be avoided or interrupted in a significant way as this would potentially lead to unsafe conditions and loss of lives in local communities.

□ **Solid Waste Removal, Street Cleansing and Public Toilets**

The cleaning of taxi ranks, ablution facilities and refuse removal is critical and essential in ensuring that the Municipality is kept clean at all times, while at the same time generating funds through refuse removal from businesses. Furthermore, overtime is only applicable during weekends in this Section. Overtime hours worked in the month has not increased, therefore expenditure may be due to the fact that there were 5 weekends in that month. The Section will continue to monitor this line item.

**COMMUNITY SERVICES - ENVIRONMENTAL AND RECREATION SERVICES**

**OVERTIME**

FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (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
<b>COMMUNITY SERVICES RECRATION</b>											
FX001001003	Cemeteries	664,000	151,000	-	815,000	543,333	500,789	75,490	-	576,279	(32,946)
FX013002004001	Sport Development and Sportfields	-	210,300	-			-	155,502	-	155,502	(155,502)
FX013001001	Beaches and Jetties	-	159,100	-	159,100	106,067	-	162,686	-	162,686	(56,620)
FX013002003003	Recreational Facilities - Swimming Pools	50,000	435,100	-	485,100	323,400	3,967	438,728	-	442,695	(119,295)
FX013001002	Community Parks (including Nurseries)	-	194,800	-	194,800	129,867	-	264,749	-	264,749	(134,882)
<b>Total</b>		<b>714,000</b>	<b>1,150,300</b>	<b>-</b>	<b>1,654,000</b>	<b>1,102,667</b>	<b>504,756</b>	<b>1,097,155</b>	<b>-</b>	<b>1,601,911</b>	<b>(499,245)</b>

□ **Community Parks (Including Nurseries)**

Due to the backlog on complaints from the members of the public, additional work had to be performed on weekends to improve service delivery after severe storms. In particular, between September and October 2017, severe weather conditions (Gale Force Winds) that resulted in the number of trees being blown over or uprooted and blocking the flow of traffic.

This department was then mandated to clear all the vegetation debris, as a result long hours had to be worked during the week and on weekends to overcome the workload. This resulted in unscheduled overtime having to be organised during this period to improve or clear vegetation debris as per Council's operational requirements.

□ **Beaches and Jetties**

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 lifeguards be present at all times to ensure that swimmers are safe at all times, thus contributing to the over-expenditure. Cognisance should be taken that all the lifeguards are above the threshold and requested overtime for the public holidays worked. In normal circumstances, lifeguards do take leave in lieu of overtime worked. A report (RPT 163214) does explain that lifeguards will be paid overtime for certain days during the Festive Season for the 2017/18 financial year.

□ **Swimming Pools**

The facilities are open 7 days a week and staff are required to work weekends and public holidays for the general cleaning of the swimming pool as well as the surrounding area. The cashiers were also working during the public holidays and their function was to collect entry fees from the public using the facilities. The public demand to utilise the pools during weekends and the public holidays is increasing. Also swimming galas are only held during weekends and this requires more staff to set up for a gala as well as place lanes in the pool. All of this results in over expenditure on overtime.

## 8.2 Corporate Services

### 8.2.1 Overtime

CORPORATE SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (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	280,000	46,700	174,900	501,600	334,400	226,426	23,314	130,078	379,817	(45,417)
FX005001007	Information Technology	-	8,000	-	8,000	5,333	-	8,873	-	8,873	(3,540)
Total		280,000	54,700	174,900	509,600	339,733	226,426	32,187	130,078	388,690	(48,957)

#### □ Administrative and Corporate Support

Over expenditure on overtime occurred due to overtime worked by staff delivering agendas after hours.

#### □ Information Technology

Due to the SAP ERP project, urgent renovation to ICT office space was required to accommodate the SAP ERP consultants that were not catered for in the 2017/18 Adjustment Budget. It is essential that at least one ICT employee is present when renovations are undertaken to protect and secure various ICT equipment and high risk areas such as the Server Room, hence the need for ICT employee overtime. The contractor commenced work on 12 January 2018 (between 16:00 and 06:00) and reverted to normal business hours on 18 February 2018.

### 8.3 Energy and Electricity Services

#### 8.3.1 Overtime

ELECTRICITY SOURCES SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (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
ENERGY SOURCES											
FX002001001001	Marketing and Customer relations	58,100	-	-	58,100	38,733	101,716	-	-	101,716	(62,983)
FX002001002001	Street Lighting	368,800	-	-	368,800	245,867	320,359	-	-	320,359	(74,493)
<b>Total</b>		<b>426,900</b>	<b>-</b>	<b>-</b>	<b>426,900</b>	<b>284,600</b>	<b>422,076</b>	<b>-</b>	<b>-</b>	<b>422,076</b>	<b>(137,476)</b>

#### □ Electricity Distribution and Street Lighting

One hundred and sixty (160) call outs were received for the month of February 2018. This means 140 number of call outs were mainly on meter faults and no power calls which were small scale outages affecting residential customers. The other 20 power interruptions were the Medium Voltage failures which were mainly on cable faults and overhead lines. These types of faults take an average of 4 Hours to restore including the traveling time and depending on the complexity and nature of the fault.

## 8.4 Infrastructure

### 8.4.1 Overtime

INFRASTRUCTURE SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (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											
FX001001005001	Building Maintenance	35,600	5,100	-	40,700	27,133	58,793	2,546	-	61,339	(34,206)
Total		35,600	5,100	-	40,700	27,133	58,793	2,546	-	61,339	(34,206)

#### ☐ Building Maintenance

No comments provided.



INFRASTRUCTURE AND TECHNICAL SERVICES											
OVERTIME											
FUNCTION	DESCRIPTION	ADJUSTED BUDGET 2017/2018				PRO-RATA ADOPTED BUDGET (YTD)	ACTUAL FEBRUARY 2018 (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
WATER AND SANITATION SERVICES											
FX015001002002	Sewerage - Pumpstations	60,026	-	5,839	65,866	43,910	690,901	45,770	70,774	807,445	(763,534)
FX015001002003	Sewerage - Sewerage Network	388,222	-	-			4,191,494	33,461	-	4,224,955	(4,224,955)
FX016001002002	Water Distribution - Urban Water	198,428	-	99,700	298,128	198,752	2,144,428	-	-	2,144,428	(1,945,676)
<b>Total</b>		<b>646,676</b>	<b>-</b>	<b>105,539</b>	<b>363,994</b>	<b>242,663</b>	<b>7,026,823</b>	<b>79,231</b>	<b>70,774</b>	<b>7,176,828</b>	<b>(6,934,166)</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 the team during the week, weekends and including public holidays. The team also assists Empangeni plumbers with grass cutting at Reservoirs on weekends. In both Arboretum and Alton Macerator, there is a shortage of staff at Macerators. Staff are required to work double shifts when staff are on vacation or sick leave. The staff has now changed to work shifts in accordance with the Municipal Structure of 12-hour shifts and shift allowance. There are blockages, overflows and electrical problems. Personnel called out after hours at various pump stations thus contribute on over expenditure on overtime. Planned overtime was implemented on 30 January 2016. Critical pump stations inspected over weekends (Dumisani Makhaye Village 2, Hillview, Aquadene 1, Veldenvlei 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 - Pumpstation

Most of the pipes have exceeded their lifespan. They can no longer withstand the loads or forces that exceed their strength, i.e. external forces such as point loads (e.g. through a sharp rock in the pipe bedding). The weight of the soil above the pipe and external factors such as soil movements result in an increase in pipeline failures and pipe burst which occur even after hours. 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, thus resulting in over expenditure on overtime.

## 9. **IN-YEAR BUDGET STATEMENT TABLES**

The following monthly budget statement tables (**DMS 1262482**) 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

### 10. **DEBTORS ANALYSIS**

Refer to supporting table SC3 - Aged Debtors (**Annexure M**) for the month ended 28 February 2018.

### 11. **CREDITORS ANALYSIS**

Refer to supporting table SC4 - Aged Creditors (**Annexure N**) for the month ended 28 February 2018.

## **12. INVESTMENT PORTFOLIO ANALYSIS**

Refer to supporting table SC5 - Investment portfolio (**Annexure O**) for the month ended 28 February 2018.

## **13. ALLOCATION AND GRANT RECEIPTS AND EXPENDITURE**

Refer to supporting table SC6 - Transfers and grant receipts (**Annexure P**) and supporting table SC7 - transfers and grant expenditure (**Annexure Q**) for the month ended 28 February 2018.

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

Refer to supporting table SC8 - Councillor and staff benefits (**Annexure R**) for the month ended 28 February 2018.

## **15. CAPITAL PROGRAMME PERFORMANCE**

Refer to the following tables for the month ended 28 February 2018:

- ❑ Table C5 - Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding (**Annexure G**).
- ❑ Table C5C - Monthly Budgeted Capital Expenditure Budget by vote, standard classification and funding (**Annexure H**).
- ❑ Table SC12 - Monthly Capital Expenditure trend (**Annexure U**).
- ❑ Table SC13a - Monthly Capital Expenditure on new assets by asset class (**Annexure V**).
- ❑ Table SC13b - Monthly Capital Expenditure on the renewal of existing assets by asset class (**Annexure W**).
- ❑ Table SC13c - Monthly repairs and maintenance expenditure by asset class (**Annexure X**).
- ❑ Table SC13d - Monthly depreciation by asset class (**Annexure Y**).

## **16. MUNICIPAL MANAGER'S QUALITY CERTIFICATION**

Refer to **DMS 1265470** (**Annexure AD**).

### **ENVIRONMENTAL IMPLICATIONS**

None

### **FINANCIAL IMPLICATIONS**

This has been covered in detail throughout the report.

### **LEGAL IMPLICATIONS**

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

## COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

## COMMENTS OF THE MUNICIPAL MANAGER

The report is noted by the Office of the Municipal Manager.

## RECOMMENDED THAT:

1. the financial position of the uMhlathuze Municipality as at 28 February 2018, as required in terms of Section 71 and Section 66 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) and as set out in the monthly budget statement tables (**DMS 1262482**) be noted; and
2. the comments on the Municipal Standard Chart of Accounts (mSCOA) project status included under point 3.1 of the report be noted.