



FINANCE DEPARTMENT

**QUARTERLY SECTION 52(d) REPORT AND
TREASURY REPORTS QUARTER-ENDED: 30
SEPTEMBER 2016**

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CHAPTER 1: LEGISLATIVE FRAMEWORK

THE MUNICIPAL MANAGER

THE MAYOR

MUNICIPAL FINANCE MANAGEMENT ACT (MFMA) BUDGET AND PERFORMANCE ASSESSMENT REPORT IN TERMS OF THE MFMA, SECTION 52 (d), FOR THE QUARTER ENDED 30 September 2016

1.1 PURPOSE

The purpose of this report is to inform Council of the 1st quarter performance. (up to 30 September 2016) against the approved budget in compliance with Section 52 (d) of the MFMA and the requirements as promulgated in the Government Gazette No 32141 of 17 April 2009, by providing a statement on the implementation of the budget and financial state of affairs of the municipality to the Mayor, as legislated .

1.2 STRATEGIC OBJECTIVE

The strategic objective of this report is to ensure good governance, financial viability and optimal institutional transformation with capacity to execute its mandate.

1.3 BACKGROUND

Section 52(d) of the MFMA and Section 28 of Government Gazette Notice 32141 dated 17 April 2009, regarding the Local Government: Municipal Finance Management Act of 2003 and Municipal Budget and Reporting Regulations” necessitates that specific financial particulars be reported on prescribed format, hence this report to meet legislative compliance.

In terms of section 52(d) of the MFMA, – “The mayor of a Municipality -

(d) Must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs.

In terms of section 71(1) of the MFMA

“The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality’s budget reflecting the following particulars for that month and for the financial year up to the end of that month.

The Municipal Budget and Reporting Regulations section 28 stipulates that:

“The monthly budget statement of the municipality must be in a format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines Issued by the Minister in terms Section 168(1) of the MFMA.

Furthermore Section 31(1) prescribes the following:

“The mayor’s quarterly report on the implementation of the budget and financial state of affairs of the municipality as required by Section 52(d) of the Act must be –

- (a) In the format specified in Schedule C and include all the required tables charts and explanatory information, taking into account any guidelines issued by the Minister in terms Section 168(1) of the Act; and
- (b) Consistent with the monthly budget statement for September, December, March and June as applicable:
and
- (c) Submitted to the National Treasury and relevant Provincial Treasury within five (5) days of tabling of the report in the council.

CHAPTER 2: BUDGET PERFORMANCE ANALYSIS

REPORT FOR THE QUARTER ENDED 30 September 2016

This report is based upon financial information, as at 30 June 2015 and available at the time of preparation. All variances are calculated against the approved **Original** budget figures. The results for the quarter ended **30 September 2016** are summarized as follows:

2.1 Revenue Vs Expenditure Comparison Statement of Financial Performance (SFP) (Annexure A –Table C4)

The SFP shown in Annexure A is prepared on a similar basis to the prescribed budget format, detailing revenue by source, excluding capital transfers and contributions, and expenditure by type.

The summary report indicates the following:

The actual performance for the three months period ending September 2016 (excluding capital transfers and contributions) on the operating budget can be summarised as follows:

	Total Budget R'000	1st Quarter Budget R'000	1st Quarter Actual R'000	Variance R'000
Revenue by source	125 686	48 137	45 715	2 423
Expenditure by type	125 635	31 409	26 765	4 644
Surplus/(Deficit)	51	16 728	18 949	-2 221

Note:

- ✓ The total Actual Revenue includes total operational grants received from National Treasury as per the payment schedule for the quarter.

2.1.1 Operating Revenue

The following is the revenue performance of the municipality for the 1st quarter of the financial year.

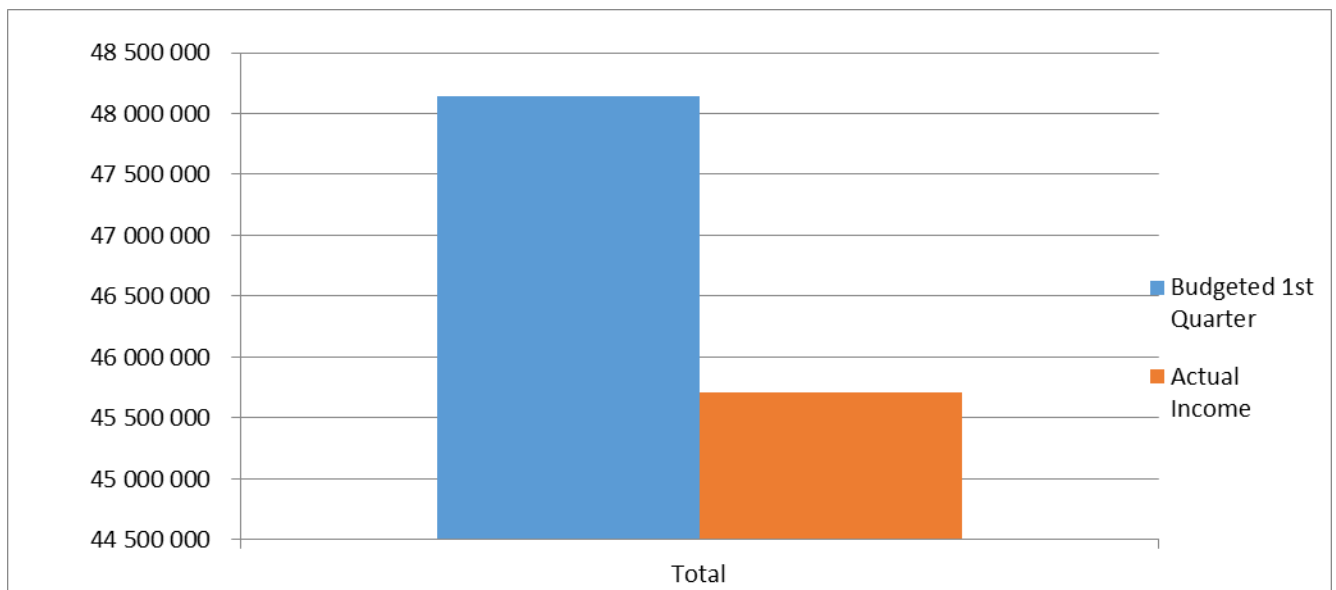
Budget 2016/17 R'000	Actual July 2016	Actual August 2016	Actual September 2016	Actual Total Quarter 1 2016	Budgeted Total Quarter 1 2016	Variance R'000	Variance %
125 686	34 727	6 244	4 743	45 715	48 137	2 423	5%

The detailed cumulative year to date performance for the 1st quarter is outlined below:

The major revenue variances against the original budget are:

- Property Rates : Favorable due the annual billing of rate payers (Farmers)
- Electricity revenue: Unfavourable due to illegal connection or tampering of electricity that leads to inaccurate metering.
- Water revenue: favourable due to the increase in billing and accurate meter readings.
- Service charges –sanitation revenue: favourable due to increase in billing
- Interest earned –external investments: unfavourable variance is due to less funds available to invest,
- Interest earned –outstanding debtors: unfavourable variance due to irrecoverable of debtors.
- Other revenue is favourable due to collections on various revenue items, non-cash items and GRAP issues only accounted for at year end when finalizing the financial statements

Graphical illustration of the total budgeted income figures versus the actual figures for the quarter.



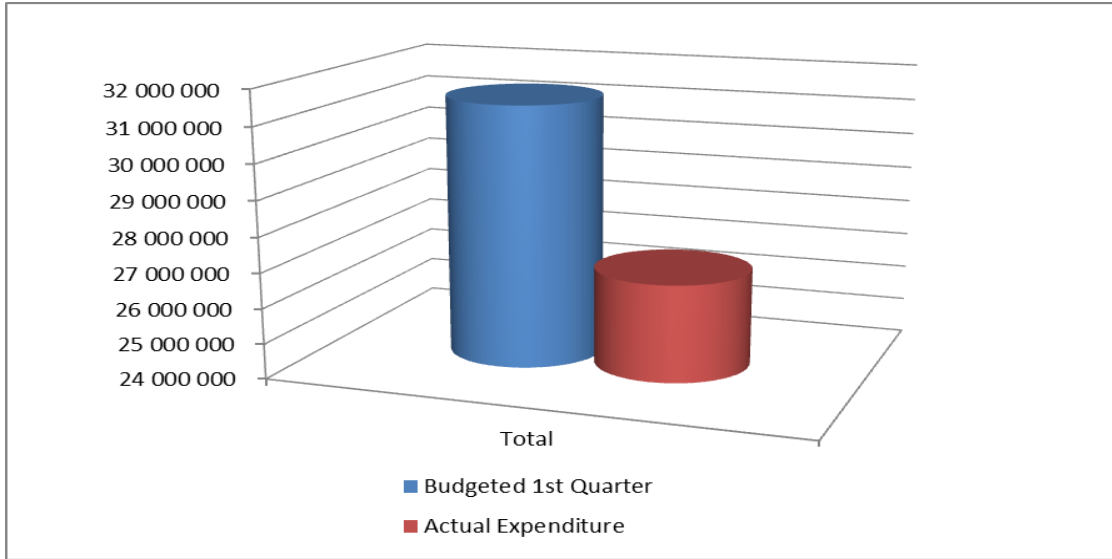
2.1.2 Operating Expenditure

The following is the expenditure performance of the municipality for the 1st quarter of the financial year.

Budget 2016/17 R'000	Actual July 2016	Actual August 2016	Actual September 2016	Actual Total Quarter 1 2016	Budgeted Total Quarter 1 2016	Variance R'000	Variance %
125 635	6 559	7 093	13 113	26 765	31 409	4 644	15%

The major operating expenditure variances against original budget are:

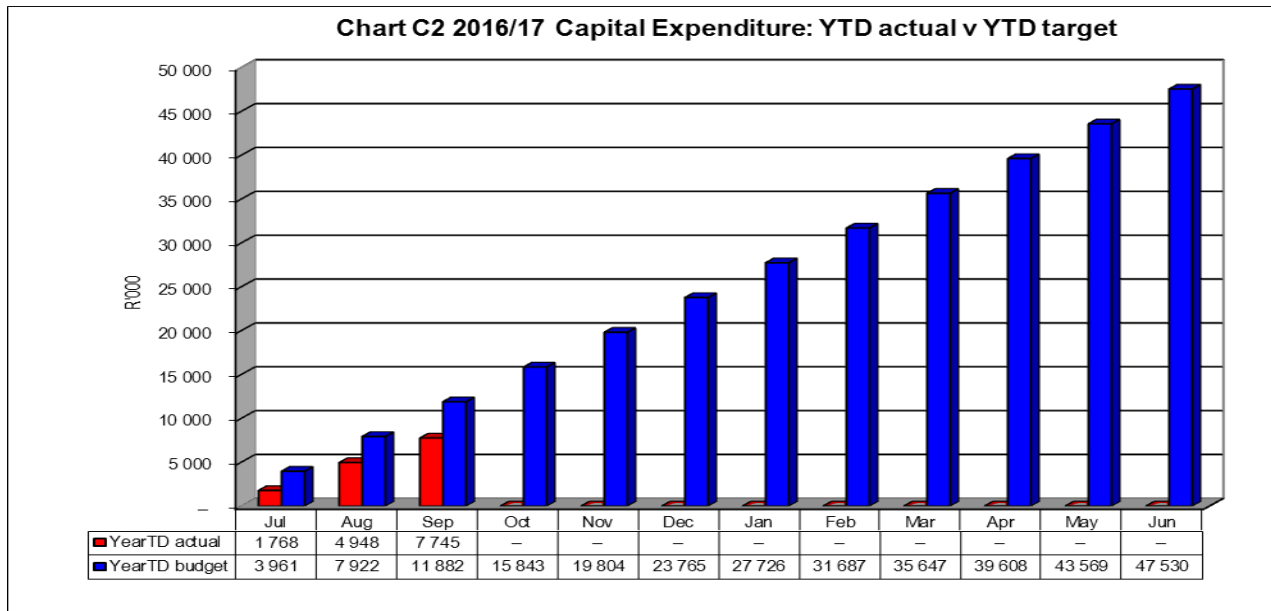
- Finance charges : favourable due to the finance lease not yet being fully utilised and the non- accrual of interest due engagements between the municipality and its creditors;
- Bulk purchases: favourable due to the lower demand for electricity in the 1st and the last month of the quarter.



2.2 Capital expenditure report (Annexure B Table C5)

The Capital expenditure report shown in Annexure B Table C5 has been prepared on the basis of the format required to be lodged electronically with National Treasury.

The following chart compares the year to date actual capital expenditure with the year to date budget.



Details of the above are available on **Annexure B Table C5**

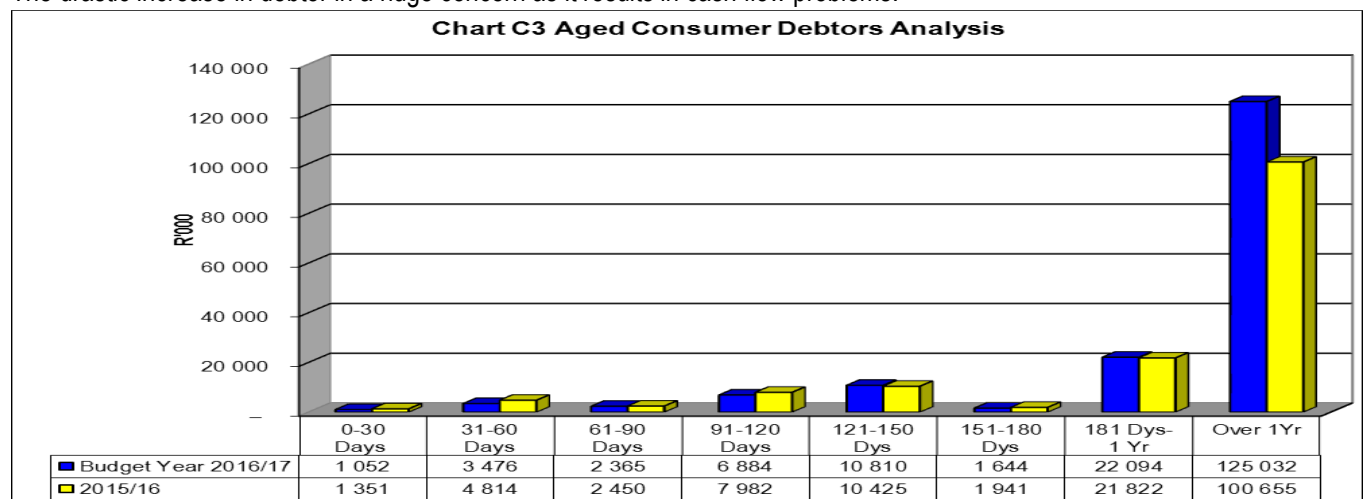
2.2.1 Municipal Infrastructure Grant Expenditure

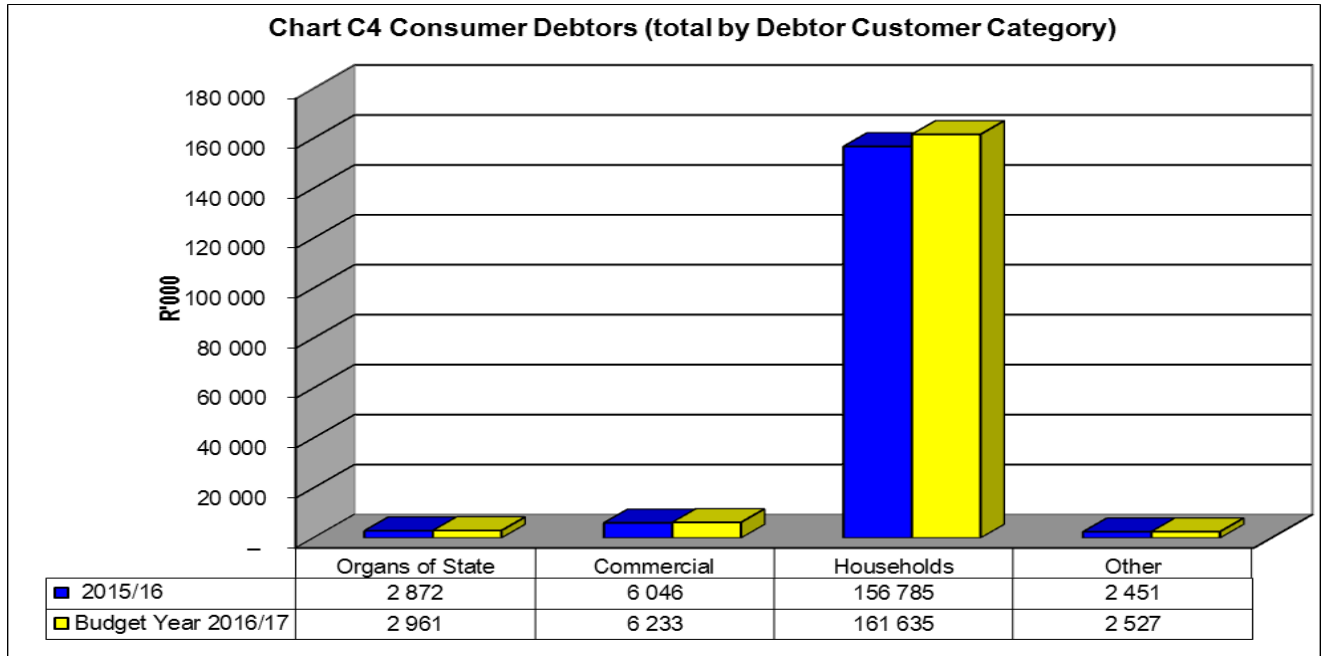
Project Description	July 2016 Actuals	August 2016 Actuals	September 2016 Actuals
Vrede/Thembalihle Ex1: Upgrading of sports facility	R -	347 472.48	R 935 587.96
Ezenzeleni/Warden: Construction of 1.15km paved road and storm water (MIS:221571)	R 1 176 637.46	R 929 578.46	R 1 400 000
Thembalihle: Construction of 2km paved road	R 790 082.08	R613 442.07	R496 490.42
Zamani: 2ML Reservoir rising main and pump station	R -	R -	R 682 491.94
PMU	R 44 601.00	R 44 623.81	R 222 726.59
YTD Actual	R 2 011 320	R 1 935 117	R 3 737 297
YTD Budget	R 10 398 000	R 12 893 520	R 14 973 120

2.3 Debtors Analysis As At September 2016 (Table SC3 Age Debtors Annexure C)

Debtors Age Analysis									
	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total
	R'000	%	R'000	%	R'000	%	R'000	%	R'000
Debtors At 30-09-2016	1 052	1%	3 476	2%	2 365	1%	166 463	96%	173 356
Debtors At 30-09-2015	1 351	1%	4 814	3%	2 450	2%	142 825	94%	151 440
Movement	299		1 338		85		-23 638		-21 916
% Increase/ Decrease for the Year	28%		38%		4%		-14%		-13%

The drastic increase in debtor in a huge concern as it results in cash flow problems.

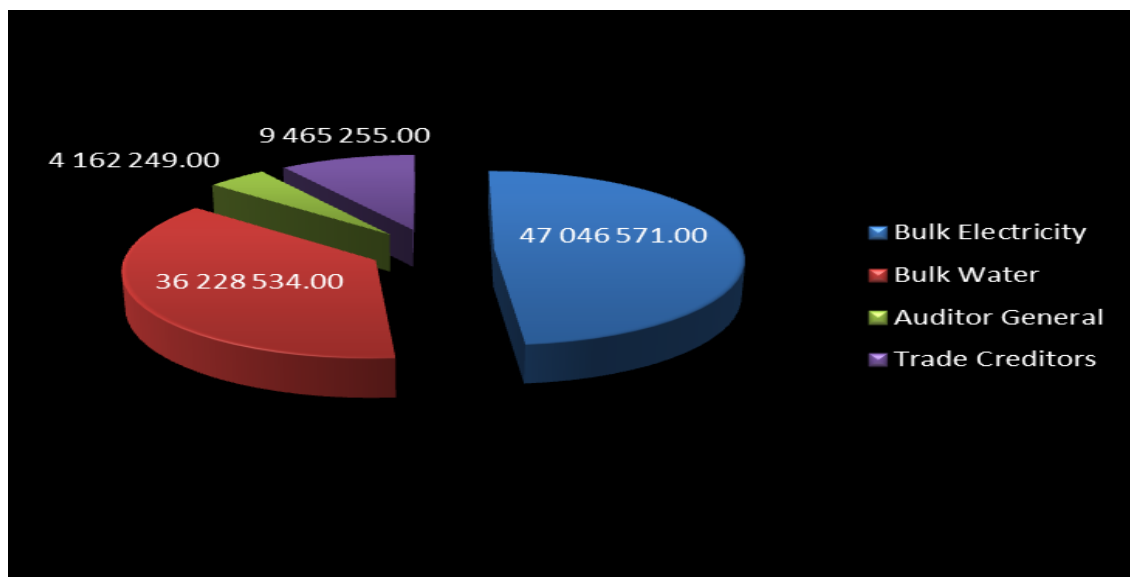




Households are the biggest debtors for the municipality contributing 92% to the total debtors figure.

2.4 Creditors Analysis As at September 2016 (Table SC4 Age Creditors Annexure D)

Creditors							
Details	Bulk Electricity	Bulk Water	Auditor General	Pension Ret.Ded	Loan Repaymen	Trade Creditors	Total
Sep-16	R 47 046 571	R 36 228 534	R 4 162 249	R -	R -	R 9 465 255	R 96 902 609



The municipality's policy is to pay its creditors within 30 days of date of the creditors invoices.

Chapter 3: COLLECTION RATE

3.1 Billing and payments ratio report

Description	Actual July 2016 R'000	Actual August 2016 R'000	Actual September 2016 R'000	Total for the Quarter 1
Billings	9 798	3 984	4 743	18 526
Receipts	2 223	2 794	4 097	9 114
Payment %	23%	70%	86%	49%

The payment rate of the municipality is at 49%, which is below the norm for municipalities of about 95%.

3.2 Revenue Management

✓ Level of Reliance on Government Grants

Purpose: The purpose of this ratio is to determine what percentage of the municipality's revenue is made up of government grants to determine the level of reliance on government funding by the municipality for its operations.

Formula: Grants & Subsidies/Total Revenue

These figures are found in the financial system of the Municipality

Description	Total Budget R'000	Actual Quarter 1 R'000	Budget Quarter 1 R'000
Operational Grants			
Equitable Share	59 830	24 929	24 929
Financial Management Grant	2 010	2 010	2 010
Expanded Public Works Program	1 000	250	250
Total Operational Grants	62 840	27 189	27 189
Total Operational Income	62 846	18 526	15 712
Percentage over Total Income anticipated	51%	68%	58%

- During the 1st quarter the municipality received 43% of the anticipated budgeted income from the Grants;
- Grants received for the 1st quarter is equal to 68% of the income generated after billings;
- Financial Management Grant and Municipal System Improvement Grant were all received in full in the 1st quarter;
- The Municipality received 24 929 of its equitable share for the 1st which is equivalent to 42% of its total budgeted amount as per DoRa;
- Budgeted Grants equal 51% of the total budgeted income of the municipality.

Chapter 4: Expenditure Management

4.1 Personnel Cost to Total Expenditure

Purpose: The purpose of this ratio is to Indicate Personnel Cost as a percentage of Total Expenditure.

Formula: Salaries, Wages and allowances/Total Expenditure

The figures are found in the financial system of the municipality.

Description	Total Budget R'000	Actual Quarter 1 R'000	Budget Quarter 1 R'000
Total Employee/ Councilors Related Cost	71 676	15 323	17 919
Total Operating Expenditure	125 635	28 503	31 409
% of Personnel cost/Total Operating Exp	57%	54%	57%

- The norm for this ratio is between 25% and 41% to the total expenditure, as such; the current status quo is alarming.

4.2 Repairs and Maintenance to Operating Expenditure

Purpose: The purpose of this ratio is to determine whether municipalities are spending adequate amounts on Repairs and Maintenance of PPE.

Formula: Repairs and Maintenance/Total Operating Expenditure

These figures are found in the financial system of the municipality.

Description	Total Budget R'000	Actual Quarter 1 R'000	Budget Quarter 1 R'000
Total Repairs and Maintenance	7 580	161	1 895
Total Operating Expenditure	125 635	1 895	31 409
% of R & M / Total Operating Expenditure	6%	8%	6%

- Fraction of total repairs and maintenance budgeted on total operating expenditure budgeted is 6%
- The current fraction of repairs and maintenance on operating expenditure is 8%
- 8% is considered as a norm for repairs and maintenance.

Chapter 5: CURRENT ASSETS MANAGEMENT

5.1 Debtors Collection Period

Purpose: The purpose of this ratio is to calculate the debtor's collection period of the municipality by comparing the end of quarter balance of certain debtors with the revenue earned from those debtors during the financial year.

Formula: Consumer Debtors before provision for Bad Debts/Total Revenue *365

The figures are found in the financial system of the municipality and provide a detailed explanation on the current status and challenges faced in debt collection

Description	Actual Quarter 1 R'000
Total own Generated operating Income for quarter 1	15 712
Consumer Debtors for quarter 1	3 386
Collection Period (Days)	21 days
Norm	30 days
Difference	9 days

- The norm is 30 days and will be used as basis of interpretation.
- The municipality's ratio for the 1st quarter is 21 days.
- The municipality is within the norm and the is a drastic improvement in the debt collection

Chapter 6: CORRECTIVE MEASURES

The municipality has introduced a number of strategies in order to turn the situation around. These are explained in detail hereunder (in no particular order).

6.1 Cuncilors and Employees

This strategy involves collecting all outstanding amounts from councilors and employees, together with the full current account.

Not all councilors are currently up to date with their service accounts.

All employees in arrear with their service accounts have had their current billings deducted directly from their salaries and advised to make arrangements for the arrear amounts. The deductions were effected after engagements with the respective employees.

6.2 Subsidisation of Indigents Only.

The municipality started subsidising only indigents, as the equitable share allocation from the national government only covers them. All the non-indigent are no longer subsidised by the municipality for their consumption of water and electricity.

Consumers who meet the criteria to register as indigents are advised to register as such.



QUALITY CERTIFICATE

I The Municipal Manager of Phumelela Local Municipality Hereby certify that:

The Quarterly Budget Monitoring Reports (Section 52d of the Municipal Finance Management Act 56 of 2003)

For the quarter ended 30 September 2016 has been prepared in accordance with the Municipal Finance Management Act and Regulations made by the Act

Municipal Manager of Phumelela Local Municipality (FS195)

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Signature

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Date