



FINANCE DEPARTMENT

**QUARTERLY SECTION 52(d) REPORT AND
TREASURY REPORTS QUARTER-ENDED: 31
DECEMBER 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 31 DECEMBER 2016

1.1 PURPOSE

The purpose of this report is to inform Council of the 2nd quarter performance. (up to 31 December 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 October, November, and December 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 31 December 2016

This report is based upon financial information, as at 31 December 2016 and available at the time of preparation. All variances are calculated against the approved **Original** budget figures. The results **for the quarter ended 31 December 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 December 2016 (excluding capital transfers and contributions) on the operating budget can be summarised as follows:

	Total Budget R'000	2 nd Quarter Budget R'000	2 nd Quarter Actual R'000	Variance R'000
Revenue by source	125 686	48 137	39 910	(8 227)
Expenditure by type	125 635	31 409	39 305	7 896
Surplus/(Deficit)	51	26	19 554	(331)

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 2nd quarter of the financial year.

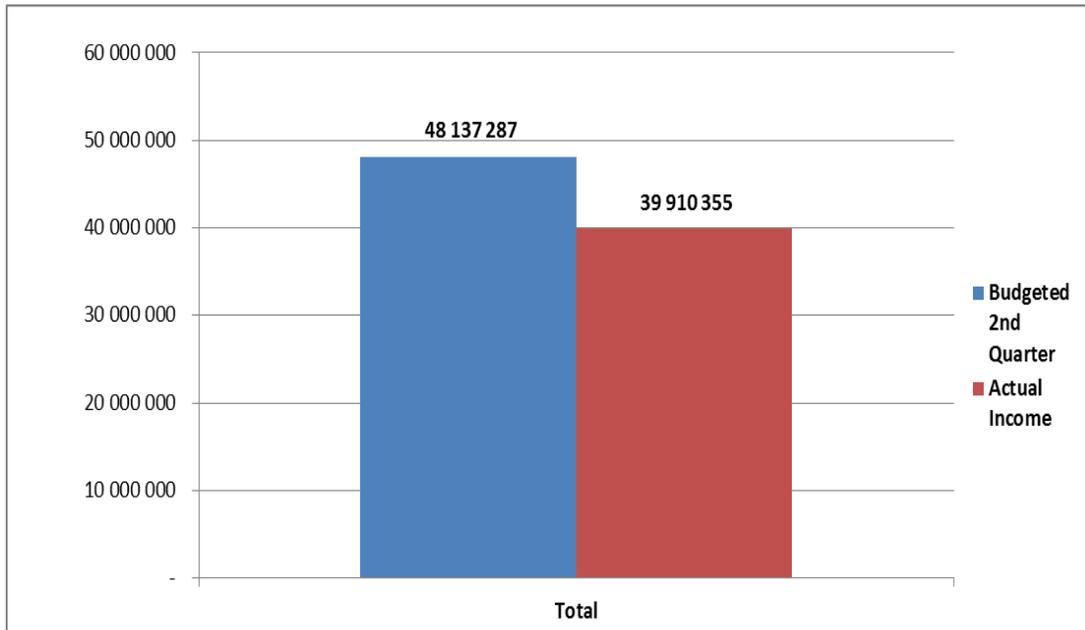
Budget 2016/17 R'000	Actual October 2016	Actual November 2016	Actual December 2016	Actual Total Quarter 2 2016	Budgeted Total Quarter 2 2016	Variance R'000	Variance %
125 686	17 246	279	22 385	39 910	48 137	8 227	17%

The detailed cumulative year to date performance for the 2nd quarter is outlined below:

The major revenue variances against the original budget are:

- **Property rates:** During the 1st quarter R 6,963m was billed and R 2,903m 42% was collected by the Municipality, and during the 2nd quarter R1,474 was billed and R 2,723 was collected 185 % which resulted on an increase of 143% collection, this also include arrears, and yearly payment of property rates by farmers.
- **Water Revenue:** The Municipality billed a total of R 2,242m and collected R1,903m 85% during the 1st quarter and during the 2nd quarter the Municipality billed R 3,483m and collected R0,915m 26% this results concerning and more control majors are in place to address this matter, such as the Municipality issuing cut off notices and debtors making payment arrangements with the Municipality.
- **Sanitation/ Sewerage Revenue:** The 1st quarter billing for the sanitation was R2,022m and collected R0, 781m 39%, during the 2nd quarter billing equalled R2,255 and collected R1,295m 57% which also resulted in an better improvement from the 1st quarter of the financial year of 18%.
- **Refuse Revenue:** The Municipality billed R2, 118m and collected R1, 112m 52% and billed R2, 130m and collected R1, 268m for the second quarter 59% which resulted in an increase of 7%.
- **Electricity Revenue:** During the 1st quarter the municipality billed R2,013m and collected R1,115m 55% and billed R1,879m and collected R1,307m 69% which resulted in an increase of 14% in collection rate

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



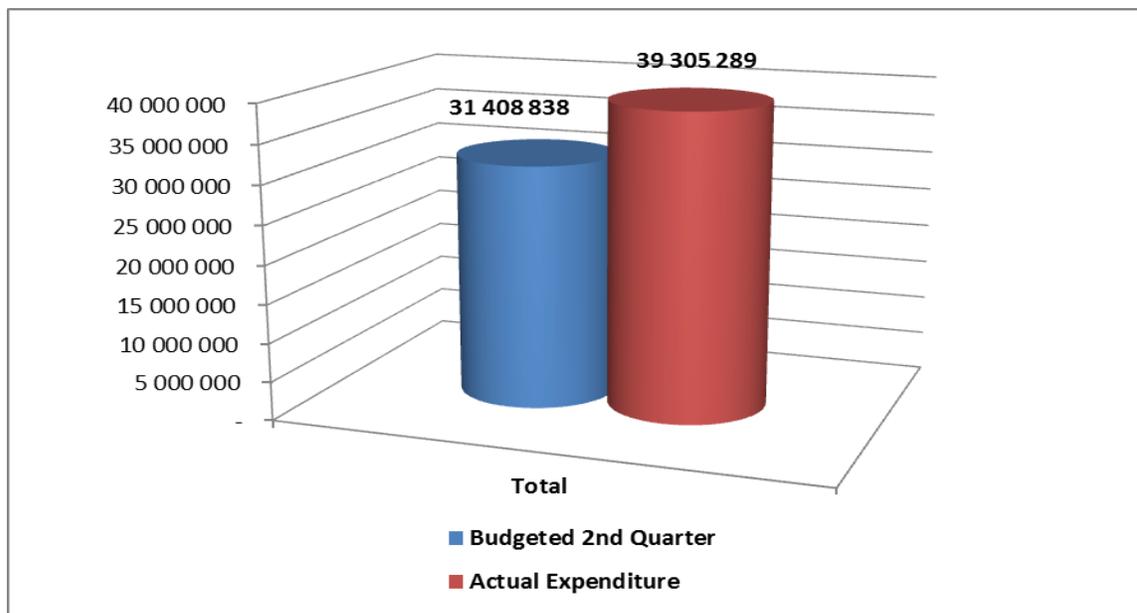
2.1.2 Operating Expenditure

The following is the expenditure performance of the municipality for the 2nd quarter of the financial year.

Budget 2016/17 R'000	Actual October 2016	Actual November 2016	Actual December 2016	Actual Total Quarter 2 2016	Budgeted Total Quarter 2 2016	Variance R'000	Variance %
125 635	18 836	13 547	22 385	39 305	31 409	7 896	25%

The major operating expenditure variances against original budget are:

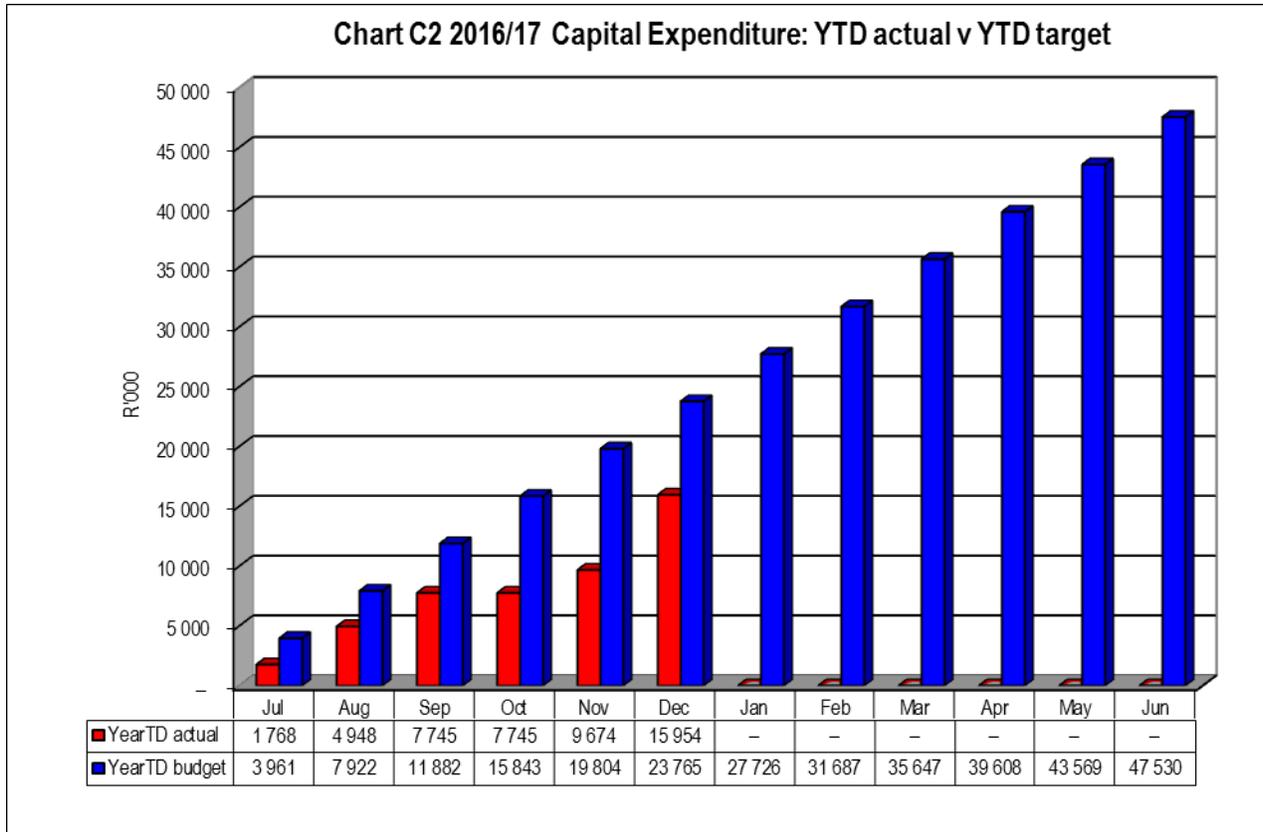
- **Bulk Purchases:** This is due to an ever increasing Eskom Bulk Electricity which is standing at R 59,361m at the end of the semester. The Municipality has payments arrangements with Eskom in this regard.
- **Other Expenditure:** Other Expenditure include Repairs and Maintenance, Water Chemicals, Hiring of Equipment, Telephone etc, which have already overspent and must be adjusted on the Adjustment Budget.



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	October 2016 Actuals '000	November 2016 Actuals '000	December 2016 Actuals '000
1. PMU	R 83	R 83	R -
2. Vrede/Thembalihle Ex1: Upgrading of the sports facility. Ph 3.	R 357	R 286	R -
3. Ezenzeleni/Warden: Construction of 1.5km paved road and storm water	R -	R -	R -
4. Zamani/Memel: Construction of 2Km Paved Road		R -	R -
5. Ezenzeleni/Warden: Upgrading of Sports Facility	R 366	R 150	R 391
6. Thembalihle/Vrede (Ext 4): Construction of new 3.5Ml Concrete Reservoir	R 1 235	R 1 969	R -
7. Thembalihle: Construction of 2km paved road and storm water phase 2	R -	R -	R -
8. Construction of Dam	R 2 161	R -	R 3 064
YTD Actual	R 2 041	R 2 488	R 391

2.3 Debtors Analysis As At December 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 31-12-2016	3 411	2%	2 872	2%	2 428	2%	146 723	94%	155 434
Debtors At 31-12-2015	3 510	2%	3 151	2%	3 858	2%	178 399	94%	188 918
Movement	99		279		1 430		31 676		33 484
% Increase/ Decrease for the Year	3%		10%		59%		22%		22%

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

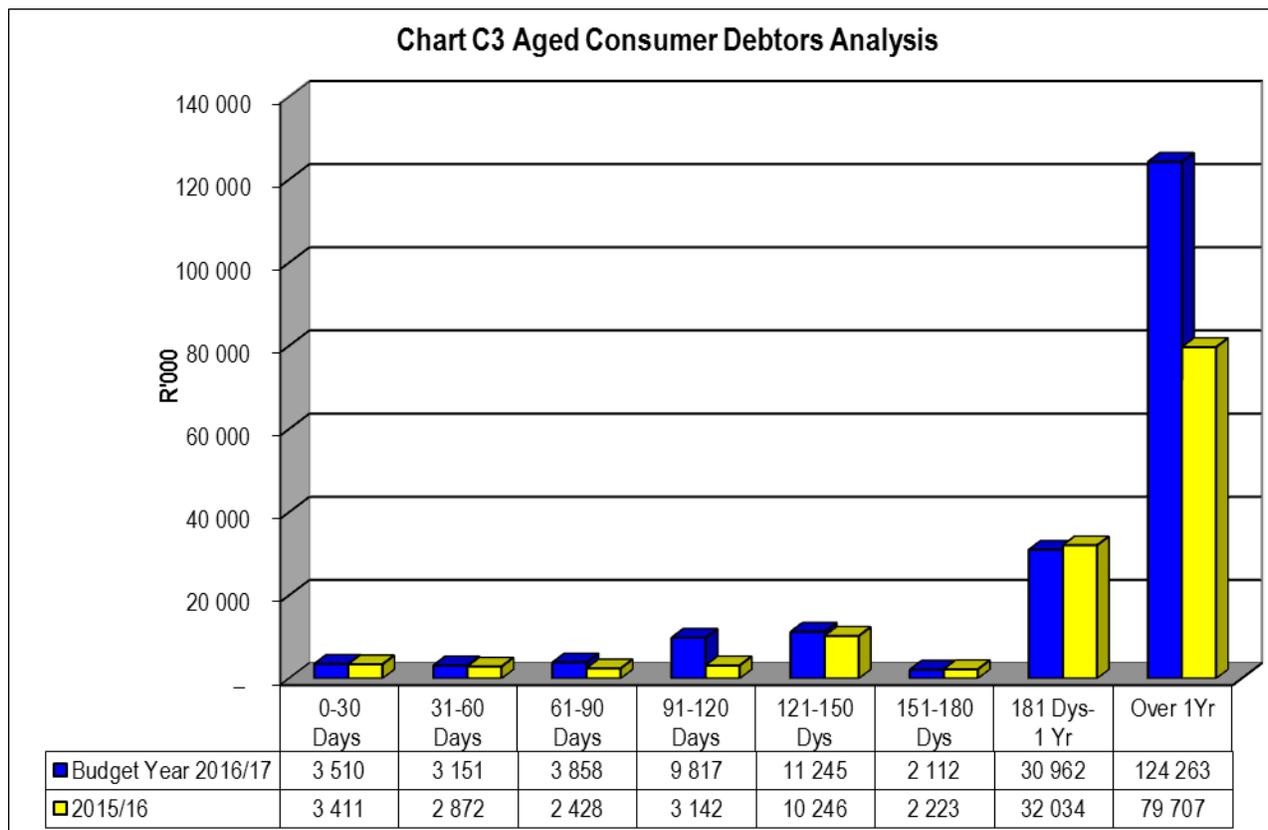
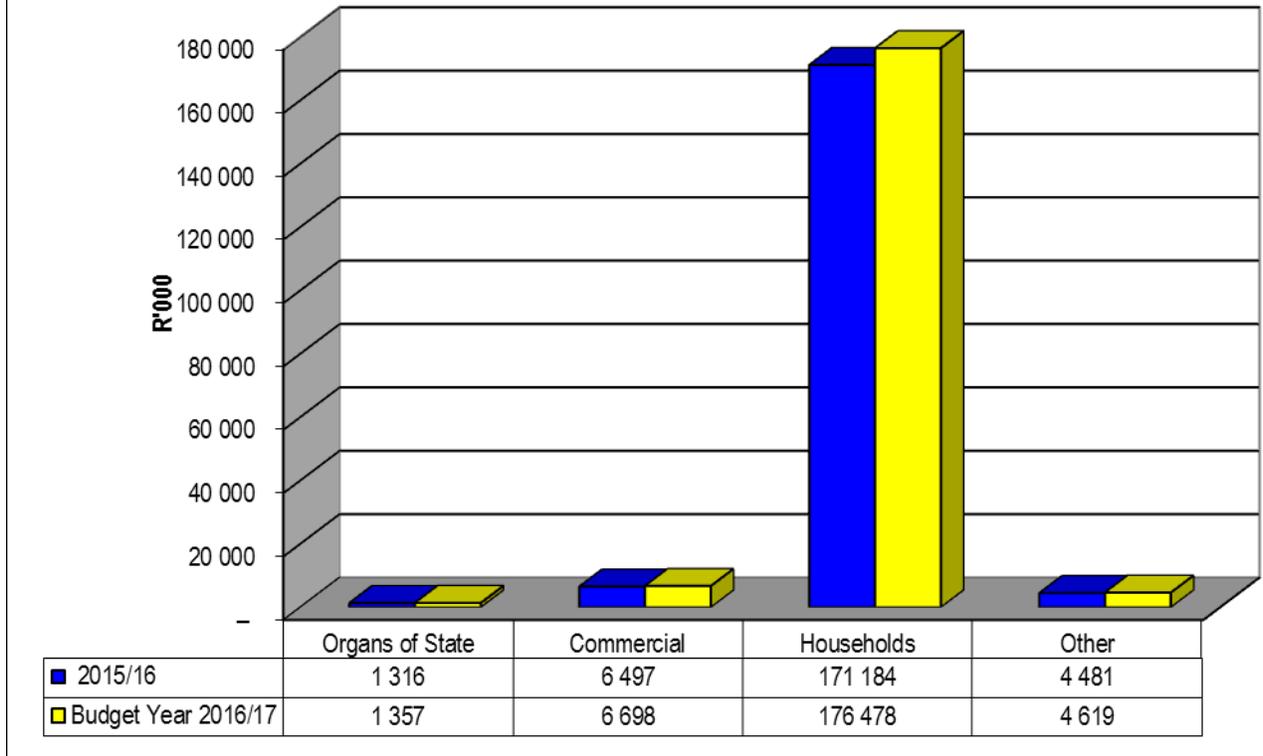


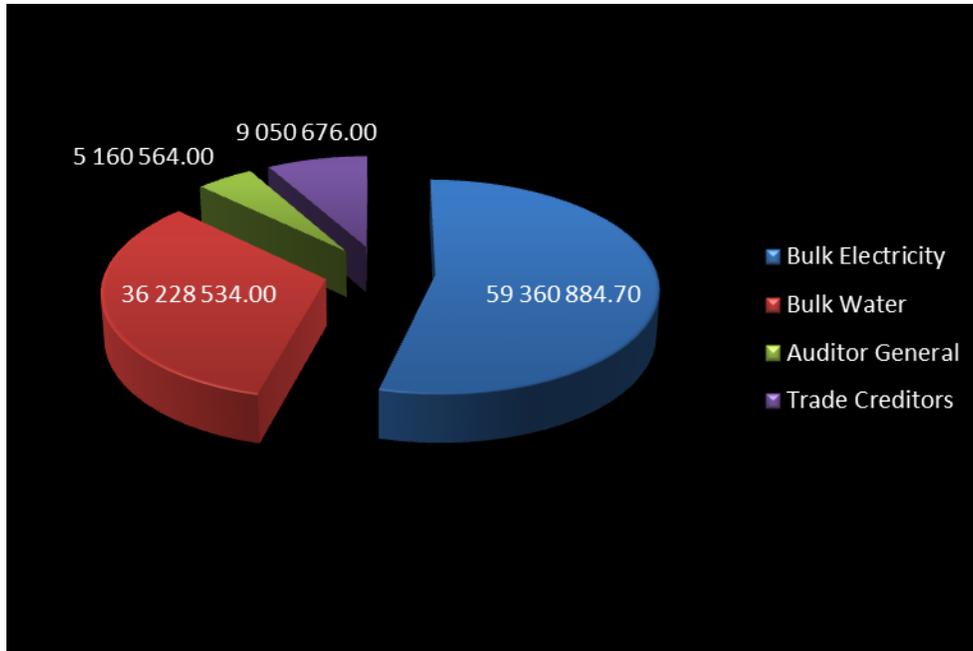
Chart C4 Consumer Debtors (total by Debtor Customer Category)



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

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

Creditors							
Details	Bulk Electricity	Bulk Water	Auditor General	Pension Ret.Ded	Loan Repa	Trade Creditors	Total
Dec-16	R 59 360 885	R 36 228 534	R 5 160 564	R -	R -	R 9 050 676	R 109 800 659



Outstanding creditors for the period under review amount to approximately R 109 800 m which represents an increase of R 25 867m (29%) when compared to 31 December 2015.

The municipality's policy is to pay its creditors within 30 days of date of the creditors invoices. This is not always possible as the municipality is under financial distress.

Chapter 3: COLLECTION RATE

3.1 Billing and payments ratio report

Description	Actual October 2016 R'000	Actual November 2016 R'000	Actual December 2016 R'000	Total for the Quarter 2
Billings	5 237	(171)	4 194	21 269
Receipts	17 246	3 384	2 285	8 442
Payment %	30%	-(5.05%)	(54%)	(40%)

The payment rate of the municipality is at a drastic low at (40%), 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	Cumulative Actual Quarter 2
Operational Grants	R'000	R'000
Equitable Share	59 830	43 120
Financial Management Grant	2 010	2 010
Expanded Public Works Program	1 000	700
Total Operational Grants	62 840	45 830
Total Operational Income	62 846	85 625
Percentage over Total Income anticipated	51%	35%

- During the 2nd quarter the municipality received 73% of the anticipated budgeted income from the Grants;
- Grants received for the 2nd quarter is equal to 68% of the income generated after billings;
- Financial Management Grant was received in full in the 1st quarter;
- Budgeted Grants equal 51% of the total budgeted income of the municipality.
- The Municipality received R 18 191 000 of its 2nd stretch of it allocated equitable share in the 2nd quarter of the financial year. The Municipality initially anticipated R 19 943 000, and R 1 752 000 was withheld due to not fully spending Integrated National Electrification Grant/Programme (INEG/P) which was already committed by the municipality but not paid during the 2015/16 Financial year, and the rollover was not approved by National Treasury, and the Municipality will engage both National Treasury and Department Of Energy as the set amount was already paid to the service provider in August 2016.

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 2 R'000	Budget Quarter 2 R'000
Total Employee/ Councilors Related Cost	71 676	14 525	17 919
Total Operating Expenditure	125 635	39 305	31 409
% of Personnel cost/Total Operating Exp	57%	37%	57%

- The norm for this ratio is between 25% and 37% 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	Cumulative Actual Quarter 2 R'000	Cumulative Budget Quarter 2 R'000
Total Repairs and Maintenance	7 580	1 721	3 790
Total Operating Expenditure	125 635	66 070	62 818
% of R & M / Total Operating Expenditure	6%	3%	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 3%
- 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 2 R'000
Total own Generated operating Income for quarter 1	21 269
Consumer Debtors for quarter 1	15 563
Collection Period (Days)	267 days
Norm	30 days
Difference	237 days

- The norm is 30 days and will be used as basis of interpretation.
- The municipality's ratio for the 2nd quarter is 267 days.
- The municipality is not within the norm and there 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 Councilors 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 Acting 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 31 December 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