



FINANCE DEPARTMENT

**QUARTERLY SECTION 52(d) REPORT AND
TREASURY REPORTS QUARTER-ENDED: 31
MARCH 2017**

Prepared by: NF Ralebenya

Manager: Budget and Reporting

1st Reviewer: SA Nyapholi

Chief Financial Officer

Approved by: N.F Malatjie

Acting Municipal Manager

Table of Contents

Chapter 1: LEGISLATIVE FRAMEWORK

- 1.1 Purpose
- 1.2 Strategic objective
- 1.3 Background

Chapter 2: BUDGET PERFORMANCE ANALYSIS

- 2.1 Revenue Vs Expenditure Comparison (Annexure A)
 - 2.1.1 Operating Income (Annexure A)
 - 2.1.2 Operating Expenditure (Annexure A)
- 2.2 Capital Expenditure (Annexure B)
 - 2.2.1 Municipal Infrastructure Grant Expenditure
- 2.3 Debtors Analysis (Annexure C)
- 2.4 Creditors Analysis (Annexure D)

Chapter 3: COLLECTION RATE

- 3.1 Billing and Payments Ratio Report
- 3.2 Revenue Management

Chapter 4: EXPENDITURE MANAGEMENT

- 4.1 Personnel Cost to Total Expenditure
- 4.2 Repairs and Maintenance to Total Expenditure

Chapter 5: CURRENT ASSETS MANAGEMENT

- 5.1 Debtors Collection Period

Chapter 6: CORRECTIVE MEASURES

- 6.1 Councilors and Employees
- 6.2 Subsidisation of Indigents Only

Chapter 7: Annexures

- 7.1 Annexure A: Statement of Financial Performance
- 7.2 Annexure B: Statement of Capital Expenditure
- 7.3 Annexure C: Age Debtors
- 7.4 Annexure D: Age Creditors

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 MARCH 2017

1.1 PURPOSE

The purpose of this report is to inform Council of the 3RD quarter performance. (up to 31 March 2017) 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 January, February, and March 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 ALAYSIS

REPORT FOR THE QUARTER ENDED 31 March 2017

This report is based upon financial information, as at 31 March 2017 and available at the time of preparation. All variances are calculated against the approved **Original** budget figures. The results **for the quarter ended 31 March 2017** 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 March 2017 (excluding capital transfers and contributions) on the operating budget can be summarised as follows:

	Total Budget R'000	Adjustment Budget R'000	3rd Quarter Budget R'000	3rd Quarter Actual R'000	Variance R'000
Revenue by source	125 686	129 759	32 440	27 356	5 084
Expenditure by type	125 635	129 698	32 424	31 816	(609)
Surplus/(Deficit)	51	62	15	(4 460)	7 475

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 3rd quarter of the financial year.

Budget 2016/17 R'000	Adjustment Budget R'000	Actual Billing January 2017 R'000	Actual Billing February 2017 R'000	Actual Billing March 2017 R'000	Actual Billing Total Quarter 3 R'000	Budgeted Total Quarter 3 R'000	Variance R'000	Variance %
125 686	129 759	4 223	3 988	19 144	27 356	32 440	5 084	15%

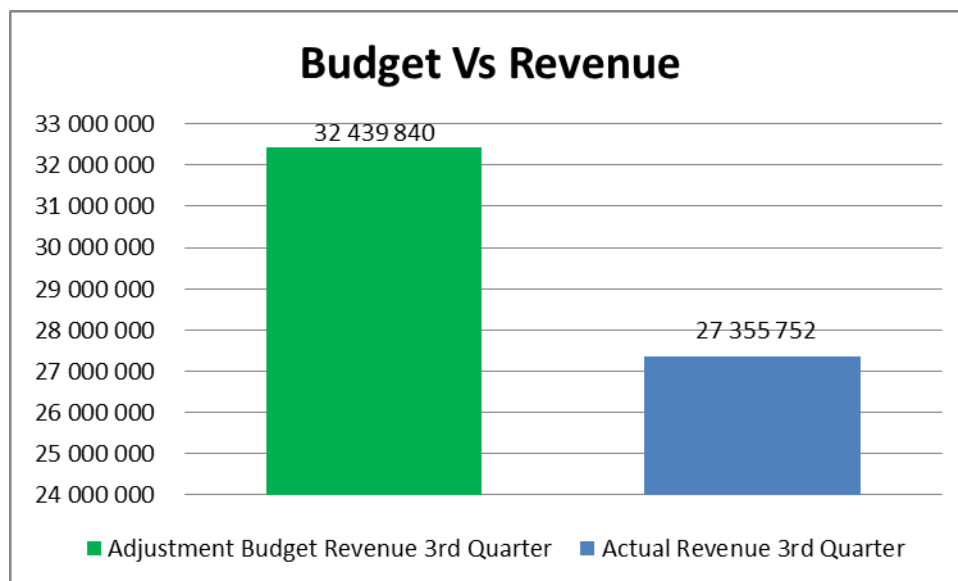
Note: The Actual for the month of March 2017 includes Operational Grants from National Treasury

The detailed cumulative year to date performance for the 3rd 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, but during the 2nd quarter R1,474m was billed and R 2,723m was collected 185% , and during the 3rd quarter of the financial year 1,498 was billed and 1,218m collection percentage came to 81%. The total Collection rate in percentage for the 3 quarters is 68%.
- **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%. %. During the 3rd quarter the Municipality billed R1,951m and collected R1,013m 52%.
- **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%, in the 3rd quarter the Municipality billed R2,286m and collected R1,370m 60% this show an improvement from the previous quarters.
- **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%, in the 3rd quarter nthe Municipality billed R2,152m and collected R1,366m 63%.
- **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, and during the 3rd quarter of the financial year the Municipality billed R 1,872m and collected R2,044m 109%, the result of the 3rd quarter show a significant increase in collection after the Municipality implemented in credit control policy.

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



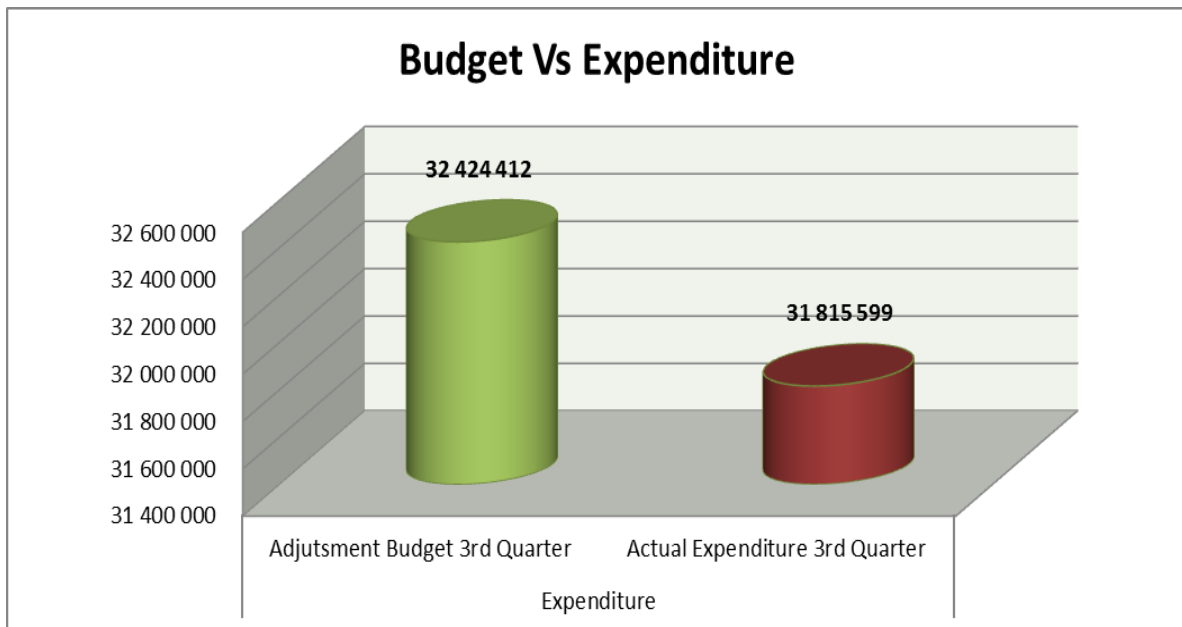
2.1.2 Operating Expenditure

The following is the expenditure performance of the municipality for the 3rd quarter of the financial year.

Budget 2016/17 R'000	Adjustment Budget R'000	Actual Exp January 2017 R'000	Actual Exp February 2017 R'000	Actual Exp March 2016 R'000	Actual Exp Total Quarter 3 2017	Budgeted Total Quarter 3 2017	Variance R'000	Variance %
125 635	129 698	10 178	11 028	10 610	31 816	32 424	(609)	(2%)

The major operating expenditure variances against original budget are:

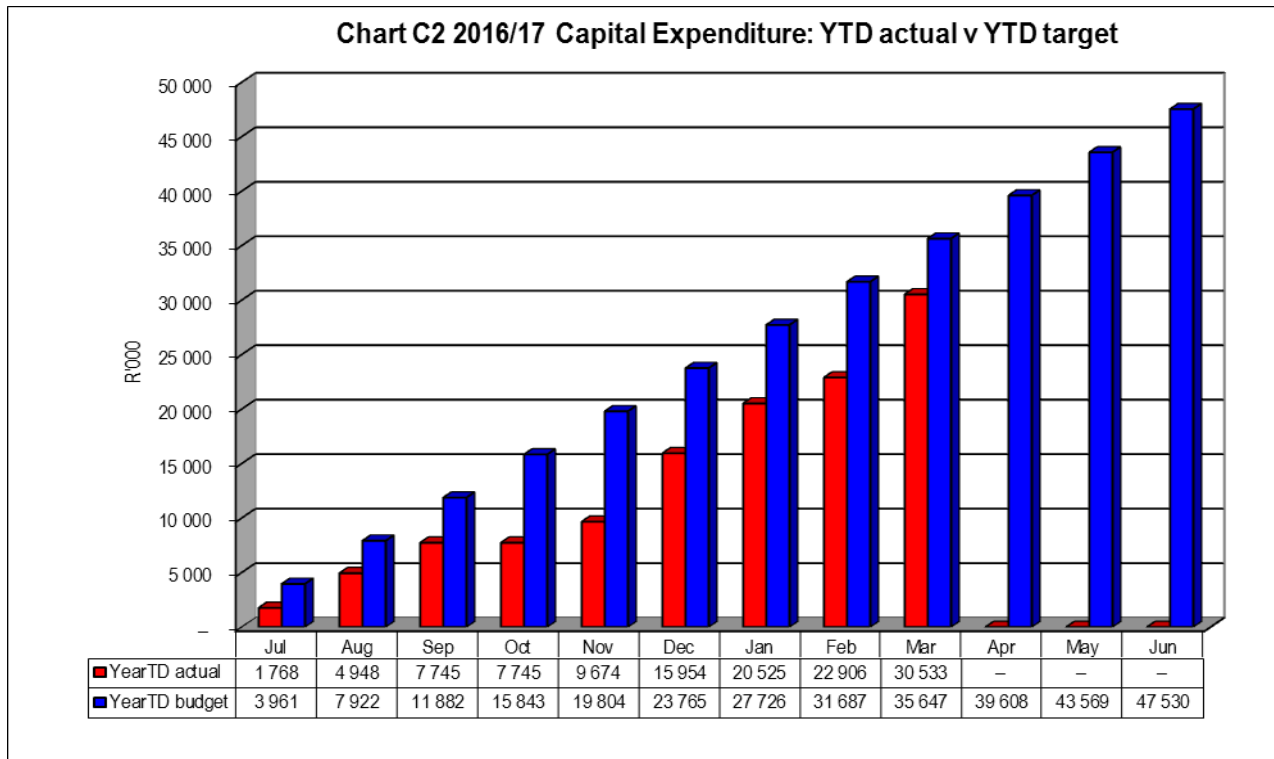
- **Bulk Purchases:** This is due to an ever increasing Eskom Bulk Electricity which is standing at R 60,536m at the end of the semester. The Municipality has payments arrangements with Eskom in this regard.
- **Other Expenditure:** Other Expenditure include Repairs and Maintenance, Water Chemicals, Hiring of Equipment, Telephone etc, which is an ongoing concern as the collection rate of the Municipality is low.



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**

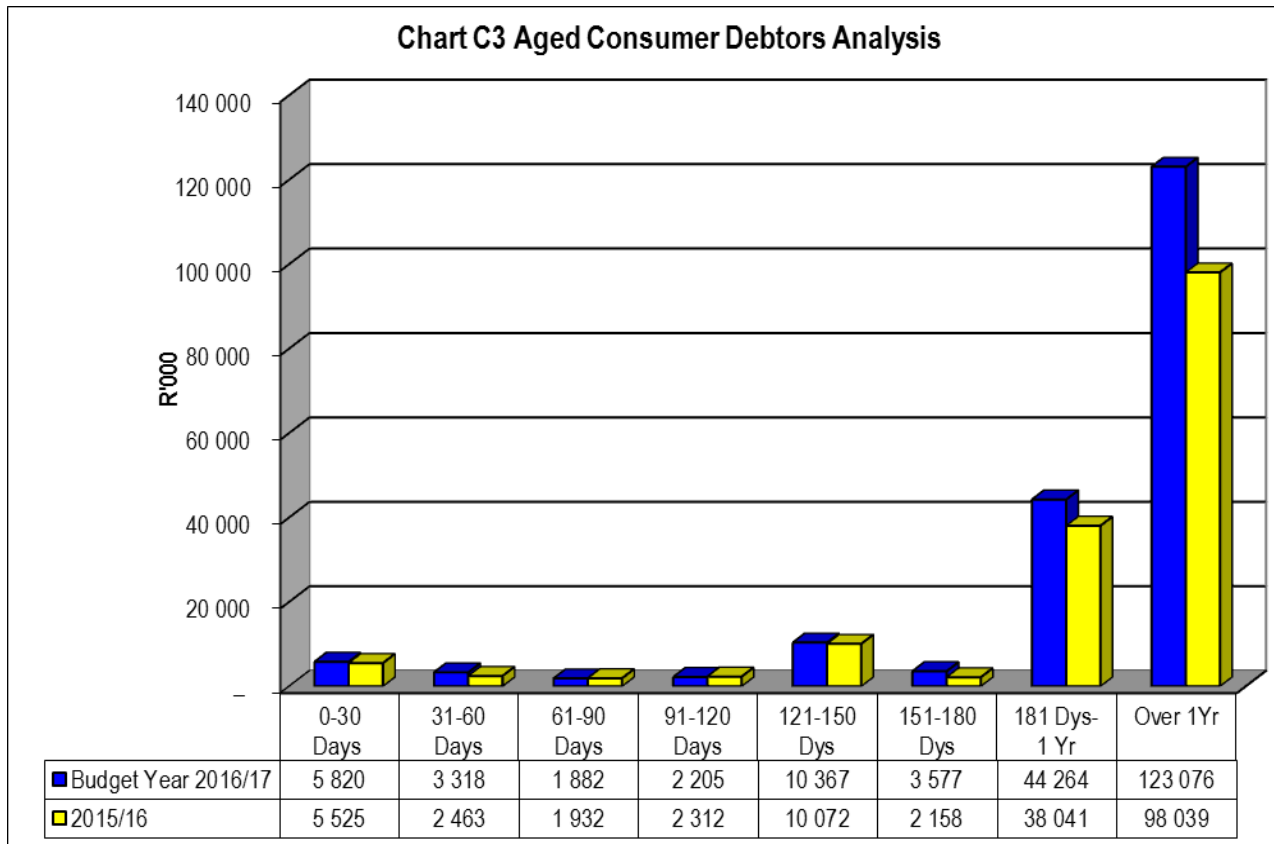
2.2.1 Municipal Infrastructure Grant Expenditure

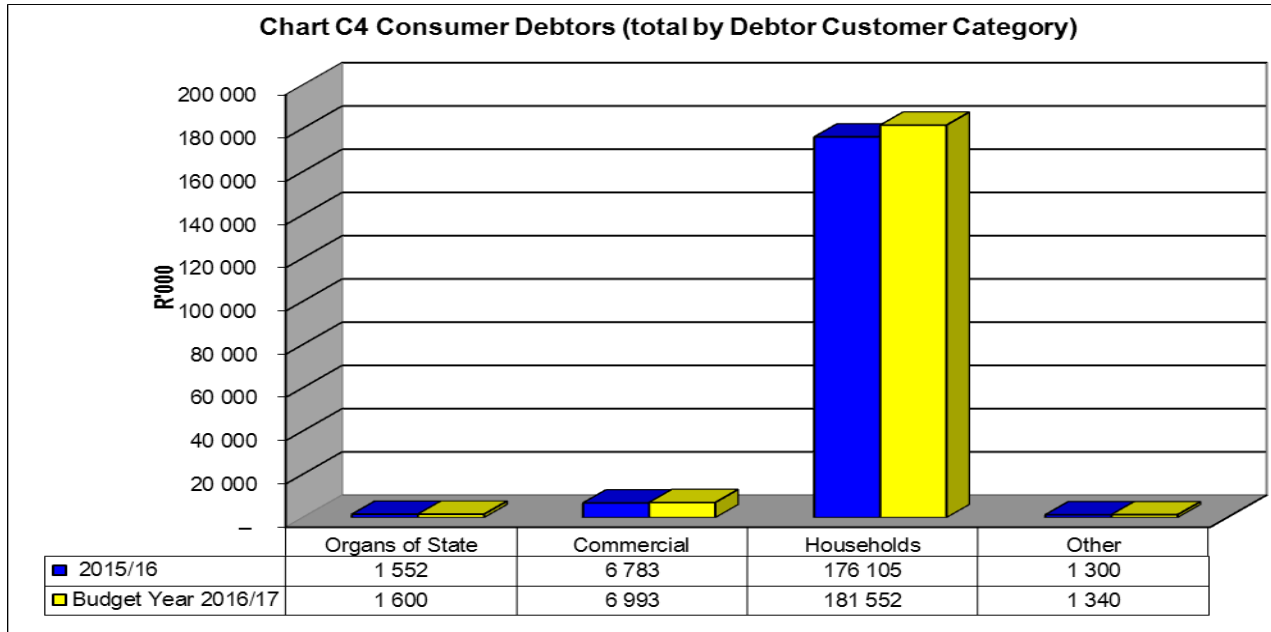
Date	Budget Estimate	Amount Received	Actual Expenditure	Balance
Jul-16	7 470 000,00	7 470 000,00	2 346 101,08	5 123 898,92
Aug-16	-	-	165 742,50	-165 742,50
Sep-16	-	-	621 606,44	-621 606,44
Oct-16	-	-	2 011 580,75	-2 011 580,75
Nov-16	4 540 000,00	-	2 487 958,98	-2 487 958,98
Dec-16	-	4 540 000,00	391 272,75	4 148 727,25
Jan-17	-	-	838 430,58	-838 430,58
Feb-17	-	-	1 082 607,94	-1 082 607,94
Mar-17	8 080 000,00	-	-	-
Apr-17	-	-	-	-
May-17	-	-	-	-
Jun-17	-	-	-	-
Total	20 090 000,00	12 010 000,00	9 945 301,02	2 064 698,98

2.3 Debtors Analysis As At March 2017 (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 31-03-2017	5 820	3%	3 318	2%	1 882	1%	183 490	94%	194 510
Debtors At 31-03-2016	5 525	3%	2 463	2%	1 932	1%	150 622	94%	160 542
Movement	-295		-855		50		-32 868		-33 968
% Increase/ Decrease for	-5%		-26%		3%		-18%		-17%

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

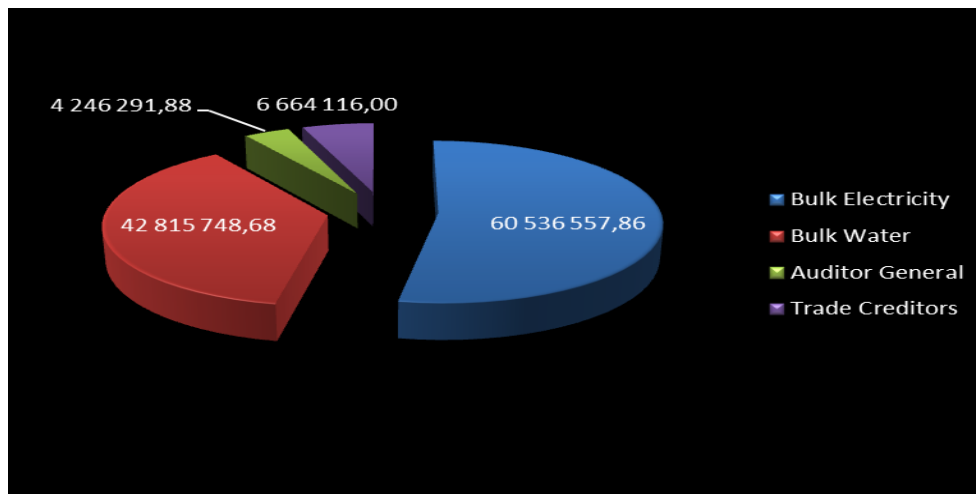




Households are the biggest debtors for the municipality contributing 92% to the total debtors figure.

2.4 Creditors Analysis As at March 2017 (Table SC4 Age Creditors Annexure D)

Creditors							
Details	Bulk Electricity	Bulk Water	Auditor General	Pension Ret.Ded	Loan Repa	Trade Creditors	Total
Mar-17	R 60 536 558	R 42 815 749	R 4 246 292	R -	R -	R 6 664 114	R 114 262 713



Outstanding creditors for the period under review amount to approximately R 114 263 m which represents an increase of R 31 993 m (28%) when compared to 31 March 2016.

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 January 2017 R'000	Actual February 2017 R'000	Actual March 2017 R'000	Total for the Quarter 3
Billings	3 186	3 136	3 437	9 759
Receipts	2 012	2 515	2 484	7 011
Payment %	63%	80%	72%	71%

The payment rate of the municipality is at (71%), which is just 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	Total Adjustment Budget R'000	Cumulative Actual Quarter 3 R'000
Operational Grants	R'000	R'000	R'000
Equitable Share	59 830	58 078	58 078
Financial Management Grant	2 010	2 010	2 010
Expanded Public Works Program	1 000	1 000	1 000
Total Operational Grants	62 840	61 088	47 628
Total Operational Income	62 846	68 671	96 925
Percentage over Total Income anticipated	51%	47%	49%

- 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.
- The Municipality received 72% of its total budgeted Operational Grants for the 8th month of the financial Year

- A total of R24 929m was received as part of the Municipality's equitable share on the first month of the financial year.
- A total of R 2,010,000 was received as part of the Municipality's Financial Management Grant in full as per DoRa.
- The Municipality received R 18 191 m of its 2nd stretch of it allocated equitable share
- The Municipality received its final anticipated amount from EPWP of R300 000.00 taking the total to R1,000,000.00 for the month on March 2017
- The Municipality also received its final allocation of 14 658 000.00 from Equitable share for the 3rd Quarter of the Financial Year.

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	Total Adjustment Budget R'000	Actual Quarter 3 R'000	Budget Quarter 3 R'000
Total Employee/ Councilors Related Cost	71 676	67 768	15 871	16 941
Total Operating Expenditure	125 635	129 698	24 498	32 424
% of Personnel cost/Total Operating Exp	57%	52%	65%	52%

- 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	Adjustment Budget R'000	Cumulative Actual Quarter 2 R'000	Cumulative Budget Quarter 2 R'000
Total Repairs and Maintenance	7 580	4 320	2 606	5 685
Total Operating Expenditure	125 635	129 698	96 925	94 227
% of R & M / Total Operating Expenditure	6%	3%	3%	6%

- Fraction of total repairs and maintenance budgeted on total operating expenditure budgeted is 3%
- 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 3 R'000
Total own Generated operating Income for quarter 3	12 398
Consumer Debtors for quarter 3	3 025
Collection Period (Days)	89days
Norm	30 days
Difference	59 days

- The norm is 30 days and will be used as basis of interpretation.
- The municipality's ratio for the 3rd quarter is 59 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.

- The Municipality advertised for debt collectors for the implementation of credit control policy and appointment will be made by end of April 2017
- This is collaboration with Eskom to install prepaid split meters in Warden/ Ezenzeleni to curb electricity distribution losses.



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 March 2017 has been prepared in accordance with the Municipal
Finance Management Act and Regulations made by the Act

Acting Municipal Manager of Phumelela Local Municipality (FS195)

.....

Signature

.....

Date