



**2017/18 Q1**  
**QUARTERLY REVIEW (S52)**

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## **PURPOSE**

To report to Council on the quarterly review of the financial and performance results for the first quarter of the 2017/18 financial year as required by section 52 of the Municipal Finance Management Act.

## **STRATEGIC OBJECTIVE**

Promoting good governance

## **WARDS AFFECTED**

All wards

## **IDP LINKAGE**

Financial Reporting

## **MAYOR'S REPORT**

In terms of S52 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 of the municipality;

## **Comments from the Honourable Mayor**

UThukela District Municipality has seen great progress in the 1<sup>st</sup> quarter in terms of laying the foundation for service delivery in the 2017/18 financial year. Service providers have been appointed for various projects budgeted for this year and in most cases projects have commenced. Council has also identified and filled posts that are critical to service delivery.

Due to the current cash position and strain on cash flow the municipality has been forced to create a working budget, which is essentially a further reduction of the approved budget. Senior managers must monitor this budget and keep an eye on the identified cost drivers. This will help improve our cash position and facilitate the adjustments budget process.

It must be noted that an amount of R151 million has been received from the budgeted total of R362 million of the equitable share and an amount of R43 million has been received in respect of the MIG (municipal infrastructure grant), R41 million in respect of MWIG (municipal water infrastructure grant), as well as R30 million in respect of RBIG (Regional Bulk Infrastructure Grant).

## EXECUTIVE SUMMARY

Section 52 of the Municipal Finance Management Act (MFMA) requires that The mayor of a municipality—

(a) Must provide general political guidance over the fiscal and financial affairs of the municipality;

(b) In providing such general political guidance, may monitor and, to the extent provided in this Act, oversee the exercise of responsibilities assigned in terms of this Act to the accounting officer and the chief financial officer, but may not interfere in the exercise of those responsibilities;

(c) Must take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of the municipality's approved budget;

(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 of the municipality; and

(e) Must exercise the other powers and perform the other duties assigned to the mayor in terms of this Act or delegated by the council to the mayor

The following annexure are attached to this item:

Annexure A – S71 for the month ending 30 September 2017



## SUMMARY OF FINANCIAL PERFORMANCE

### ANALYSIS OF OPERATING REVENUE (JULY – SEPTEMBER 2017) EXCLUDING CAPITAL TRANSFERS:

| Description  | Budget Year 2017/18 |                 |                |                |               |                |                    |
|--|---------------------|-----------------|----------------|----------------|---------------|----------------|--------------------|
|  | Original Budget     | Adjusted Budget | YearTD actual  | YearTD budget  | YTD variance  | YTD variance % | Full Year Forecast |
| <b>R thousands</b>   |                     |                 |                |                |               |                |                    |
| <b>Revenue By Source</b>   |                     |                 |                |                |               |                |                    |
| Property rates   |                     |                 |                |                | -             |                |                    |
| Service charges - electricity revenue                                |                     |                 |                |                | -             |                |                    |
| Service charges - water revenue                                      | 245,892             | 245,892         | 40,503         | 61,473         | (20,970)      | -34%           | 245,892            |
| Service charges - sanitation revenue                                 | 18,674              | 18,674          | 5,232          | 4,669          | 564           | 12%            | 18,674             |
| Service charges - refuse revenue                                     |                     |                 |                | -              | -             |                |                    |
| Service charges - other  |                     |                 |                | -              | -             |                |                    |
| Rental of facilities and equipment                                   |                     |                 |                | -              | -             |                |                    |
| Interest earned - external investments                               | 11,539              | 11,539          | 1,857          | 2,885          | (1,027)       | -36%           | 11,539             |
| Interest earned - outstanding debtors                                | 40,774              | 40,774          | 10,750         | 10,193         | 557           | 5%             | 40,774             |
| Dividends received   |                     |                 |                | -              | -             |                |                    |
| Fines, penalties and forfeits  |                     |                 |                | -              | -             |                |                    |
| Licences and permits   |                     |                 |                | -              | -             |                |                    |
| Agency services  |                     |                 |                | -              | -             |                |                    |
| Transfers and subsidies  | 367,387             | 367,387         | 152,592        | 91,847         | 60,745        | 66%            | 367,387            |
| Other revenue  | 4,384               | 4,384           | 1,777          | 1,096          | 681           | 62%            | 4,384              |
| Gains on disposal of PPE   |                     |                 |                |                | -             |                |                    |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>688,650</b>      | <b>688,650</b>  | <b>212,711</b> | <b>172,163</b> | <b>40,549</b> | <b>24%</b>     | <b>688,650</b>     |

**Budgeted  
R172, 163**

**Actual Outcomes  
R212, 711**

**% Variance  
24**

Operating revenue recognised for the period July 2017 to September 2017 amounts to R172 million resulting in a 24% positive variance from the R212 million which was anticipated.

The 24 % material variance although positive still be analysed in order to assess its impact on the budgeting process as a whole, as well as future cash flows.

This variance has been attributed to the following:

- i. The 66% positive variance on transfers recognised, which is the direct impact of the 1<sup>st</sup> trench of the equitable share of R151 million.
- ii. Other revenue is 62% above the projected amount due to unidentified deposits which amount to R1.7 million. These deposits will be receipted accordingly upon identification of their sources.

## WATER & SANITATION SALES:

Water and sanitation sales income recognised combined is 22% below what was originally anticipated. Service charges water revenue is below the original estimate by 34%. During the data cleansing process some meters which have been billing incorrectly have been identified and the errors corrected which has impacted on billing. Water restrictions continue to have a negative impact on billing. The projection will be reviewed and corrected in the adjustments budget.

## INTEREST FROM OUTSTANDING DEBTORS:

This line item has yielded a positive variance of 5% although it appears will have billed more interest than we had originally anticipated this shows deterioration in the previously anticipated collection rate.

This will have a negative impact on the financial year end results.

## INTEREST FROM INVESTMENTS:

A total of R1.8 million has been recognised as interest from external investments resulting in a negative variance of 36%.

This is due to the fact that interest due on some investments has not yet materialised as major investments were made between August and September 2017. However income is expected to improve over the course of the year. We also draw attention to the fact that the municipality has become heavily dependent on investments due to our current poor cash condition.



# UTHUKELA DISRTICT MUNICIPALITY | 2017

## ANALYSIS OF OPERATING EXPENDITURE (JULY - SEPTEMBER 2017)

| Description                     | Budget Year 2017/18 |                 |                |                |                 |                |                    |
|---------------------------------|---------------------|-----------------|----------------|----------------|-----------------|----------------|--------------------|
|                                 | Original Budget     | Adjusted Budget | YearTD actual  | YearTD budget  | YTD variance    | YTD variance % | Full Year Forecast |
| <b>R thousands</b>              |                     |                 |                |                |                 |                |                    |
| <b>Expenditure By Type</b>      |                     |                 |                |                |                 |                |                    |
| Employee related costs          | 241,092             | 241,092         | 59,945         | 60,273         | (328)           | -1%            | 241,092            |
| Remuneration of councillors     | 6,454               | 6,454           | 1,667          | 1,613          | 53              | 3%             | 6,454              |
| Debt impairment                 | 76,395              | 76,395          | -              | 19,099         | (19,099)        | -100%          | 76,395             |
| Depreciation & asset impairment | 53,137              | 53,137          | 16,086         | 13,284         | 2,801           | 21%            | 53,137             |
| Finance charges                 | 313                 | 313             | -              | 78             | (78)            | -100%          | 313                |
| Bulk purchases                  | 6,255               | 6,255           | -              | 1,564          | (1,564)         | -100%          | 6,255              |
| Other materials                 | 40,322              | 40,322          | 3,693          | 10,081         | (6,388)         | -63%           | 40,322             |
| Contracted services             | 40,611              | 40,611          | 9,604          | 10,153         | (549)           | -5%            | 40,611             |
| Transfers and subsidies         | 26,600              | 26,600          | 11,079         | 6,650          | 4,429           | 67%            | 26,600             |
| Other expenditure               | 108,232             | 108,232         | 13,382         | 27,058         | (13,676)        | -51%           | 108,232            |
| Loss on disposal of PPE         |                     |                 |                |                | -               |                |                    |
| <b>Total Expenditure</b>        | <b>599,411</b>      | <b>599,411</b>  | <b>115,455</b> | <b>149,853</b> | <b>(34,398)</b> | <b>-23%</b>    | <b>599,411</b>     |

**Budgeted**  
**R 149, 853**

**Actual Outcomes**  
**R115, 455**

**% Variance**  
**23**

The total operating expenditure of the municipality for the three month period is R115 million a 23% negative variance from the R149 million which was anticipated.

### EMPLOYEE RELATED COSTS:

Employee related cost incurred is 1% above what was budgeted for the three month period, due to overtime. If overtime cutting measures are not implemented this negative variance is most likely to accumulate before we reach mid-year.

### BULK PURCHASES:

Bulk purchases were not paid because there were no current invoices received from DWA, request were made to DWA to send through the invoices.

However the old debt is being settled as per the agreement with DWA at a rate of R1 million per month

### OTHER MATERIALS:

Other materials have a variance of 63% from the amount originally budgeted. This is an immaterial variance, maintenance and repairing of assets is going according to the adopted maintenance plan. However there are pending payments of R5.8 million which upon payment will reduce the variance to only 6%.

## TRANSFERS AND GRANTS:

This is the expenditure incurred in providing free basic services to the community, including water tankers. The budget is 67% above what was anticipated, this is also inclusive of expenditure from the prior year which was settled in the current year.

## GENERAL EXPENDITURE:

General expenditure is are 51% below what was budgeted. This is due to cost containment measures effected through the working budget.

## SUMMARY OF CAPITAL PROJECT IMPLEMENTATION

| Vote Description                                    | Budget Year     |                 |               |               |                 |                |                    |
|---|-----------------|-----------------|---------------|---------------|-----------------|----------------|--------------------|
|   | Original Budget | Adjusted Budget | YearTD actual | YearTD budget | YTD variance    | YTD variance % | Full Year Forecast |
| <b>R thousands</b>                                  |                 |                 |               |               |                 |                |                    |
| <b><u>Single Year expenditure appropriation</u></b> |                 |                 |               |               |                 |                |                    |
| 105 - MUNICIPAL MANAGER                             | 4,200           | 4,200           | -             | 1,050         | (1,050)         | -100%          | 4,200              |
| 200 - CORPORATE SERVICES                            | -               | -               | -             | -             | -               |                | -                  |
| 300 - BUDGET AND TREASURY                           | -               | -               | -             | -             | -               |                | -                  |
| 405 - SOCIAL SERVICES                               | -               | -               | -             | -             | -               |                | -                  |
| 408 - WSA & HEALTH SERVICES                         | -               | -               | -             | -             | -               |                | -                  |
| 510 - WATER, SANITATION & TECHNICAL SERVICES        | 367,339         | 367,339         | 54,822        | 91,835        | (37,013)        | -40%           | 367,339            |
| <b>Total Capital single-year expenditure</b>        | <b>371,539</b>  | <b>371,539</b>  | <b>54,822</b> | <b>92,885</b> | <b>(38,063)</b> | <b>-41%</b>    | <b>371,539</b>     |

**Budgeted**  
**R 92, 885**

**Actual Outcomes**  
**R 54, 822**

**% Variance**  
**-41**

The capital expenditure for the first quarter up to September 2017 is R54 million resulting in a negative variance of 41% from the previously projected R92 million

There were minor delays in other appointments. However project implementation is expected to improve in the coming quarters.

The slow spending on the capital budget has been noted and remedial measures are to be put in place as senior managers are due to review their SDBIPs.



## ANALYSIS OF OUTSTANDING DEBTORS:

Age Analysis as at July 2017

| Description   | Budget Year 2017/18 |               |               |               |                |                | Total over 90 days |
|---|---------------------|---------------|---------------|---------------|----------------|----------------|--------------------|
|   | 0-30 Days           | 31-60 Days    | 61-90 Days    | 91-120 Days   | 121-150 Dys    | Total          |                    |
| <b>R thousands</b>  |                     |               |               |               |                |                |                    |
| <b>Debtors Age Analysis By Income Source</b>                            |                     |               |               |               |                |                |                    |
| Trade and Other Receivables from Exchange Transactions - Water          | 21,643              | 10,738        | 13,528        | 11,455        | 637,950        | 695,314        | 649,405            |
| Trade and Other Receivables from Exchange Transactions - Electricity    |                     |               |               |               |                | -              | -                  |
| Receivables from Non-exchange Transactions - Property Rates             |                     |               |               |               |                | -              | -                  |
| Receivables from Exchange Transactions - Waste Water Management         |                     |               |               |               |                | -              | -                  |
| Receivables from Exchange Transactions - Waste Management               |                     |               |               |               |                | -              | -                  |
| Receivables from Exchange Transactions - Property Rental Debtors        |                     |               |               |               |                | -              | -                  |
| Interest on Arrear Debtor Accounts                                      |                     |               |               |               |                | -              | -                  |
| Recoverable unauthorised, irregular, fruitless and wasteful expenditure |                     |               |               |               |                | -              | -                  |
| Other   | 60                  | 34            | 18            | 31            | 974            | 1,117          | 1,005              |
| <b>Total By Income Source</b>   | <b>21,703</b>       | <b>10,772</b> | <b>13,546</b> | <b>11,486</b> | <b>638,924</b> | <b>696,431</b> | <b>650,410</b>     |
| <b>2016/17 - totals only</b>  |                     |               |               |               |                | -              | -                  |
| <b>Debtors Age Analysis By Customer Group</b>                           |                     |               |               |               |                |                |                    |
| Organs of State   | 4,042               | 723           | 1,572         | 922           | 13,322         | 20,581         | 14,244             |
| Commercial  | 2,926               | 1,102         | 1,013         | 802           | 34,369         | 40,212         | 35,171             |
| Households  | 14,735              | 8,946         | 10,961        | 9,762         | 591,233        | 635,637        | 600,995            |
| Other   |                     |               |               |               |                | -              | -                  |
| <b>Total By Customer Group</b>  | <b>21,703</b>       | <b>10,772</b> | <b>13,546</b> | <b>11,485</b> | <b>638,924</b> | <b>696,431</b> | <b>650,410</b>     |

Age Analysis as at August 2017

|  | 0-30 Days     | 31-60 Days    | 61-90 Days   | 91-120 Days   | 121-150 Dys   | 151-180 Dys    | 181 Dys-1 Yr | Over 1Yr | Total          | Total over 90 days |
|--|---------------|---------------|--------------|---------------|---------------|----------------|--------------|----------|----------------|--------------------|
| <b>R thousands</b>   |               |               |              |               |               |                |              |          |                |                    |
| <b>Debtors Age Analysis By Income Source</b>                   |               |               |              |               |               |                |              |          |                |                    |
| Trade and Other Receivables from Exchange Transactions - Water | 17,579        | 15,163        | 9,642        | 12,467        | 11,293        | 636,140        |              |          | 702,284        | 659,900            |
| Other  | 26            | 57            | 35           | 18            | 31            | 973            |              |          | 1,140          | 1,022              |
| <b>Total By Income Source</b>                                  | <b>17,605</b> | <b>15,220</b> | <b>9,677</b> | <b>12,485</b> | <b>11,324</b> | <b>637,114</b> | <b>-</b>     | <b>-</b> | <b>703,424</b> | <b>660,922</b>     |
| <b>2016/17 - totals only</b>                                   |               |               |              |               |               |                |              |          | -              | -                  |
| <b>Debtors Age Analysis By Customer Group</b>                  |               |               |              |               |               |                |              |          |                |                    |
| Organs of State  | 1,132         | 1,547         | 644          | 776           | 870           | 13,261         |              |          | 18,230         | 14,908             |
| Commercial   | 1,883         | 1,145         | 550          | 884           | 641           | 27,639         |              |          | 32,742         | 29,164             |
| Households   | 14,565        | 12,471        | 8,448        | 10,807        | 9,782         | 595,240        |              |          | 651,311        | 615,828            |
| Other  | 26            | 57            | 35           | 18            | 31            | 973            |              |          | 1,140          | 1,022              |
| <b>Total By Customer Group</b>                                 | <b>17,605</b> | <b>15,220</b> | <b>9,677</b> | <b>12,485</b> | <b>11,324</b> | <b>637,114</b> | <b>-</b>     | <b>-</b> | <b>703,424</b> | <b>660,922</b>     |

## Age analysis at September 2017

| Description  | NT Code | Budget Year 2017/18 |            |            |             |             |             |              |          |         | Total over 90 days |
|--|---------|---------------------|------------|------------|-------------|-------------|-------------|--------------|----------|---------|--------------------|
|  |         | 0-30 Days           | 31-60 Days | 61-90 Days | 91-120 Days | 121-150 Dys | 151-180 Dys | 181 Dys-1 Yr | Over 1Yr | Total   |                    |
| R thousands  |         |                     |            |            |             |             |             |              |          |         |                    |
| Debtors Age Analysis By Income Source                          |         |                     |            |            |             |             |             |              |          |         |                    |
| Trade and Other Receivables from Exchange Transactions - Water | 1200    | 20,274              | 13,703     | 13,750     | 9,369       | 11,939      | 641,470     |              |          | 710,504 | 662,778            |
| Other  | 1900    | 10                  | 24         | 31         | 15          | 5           | 975         |              |          | 1,069   | 994                |
| Total By Income Source   | 2000    | 20,283              | 13,726     | 13,781     | 9,383       | 11,944      | 642,445     | -            | -        | 711,563 | 663,773            |
| 2016/17 - totals only  |         |                     |            |            |             |             |             |              |          | -       | -                  |
| Debtors Age Analysis By Customer Group                         |         |                     |            |            |             |             |             |              |          |         |                    |
| Organs of State  | 2200    | 2,639               | 510        | 1,237      | 420         | 652         | 12,178      |              |          | 17,636  | 13,251             |
| Commercial   | 2300    | 2,337               | 1,032      | 694        | 363         | 654         | 27,769      |              |          | 32,839  | 28,776             |
| Households   | 2400    | 15,298              | 12,161     | 11,819     | 8,595       | 10,633      | 601,523     |              |          | 660,028 | 620,751            |
| Other  | 2500    | 10                  | 24         | 31         | 15          | 5           | 975         |              |          | 1,069   | 994                |
| Total By Customer Group  | 2600    | 20,283              | 13,726     | 13,781     | 9,383       | 11,944      | 642,445     | -            | -        | 711,563 | 663,773            |

Reflected above is the age analysis of debtors for the months of July – September 2017

Debtors have fluctuated consistently during the three month period, totalling R711 million at the end of the 1<sup>st</sup> quarter.

## Quarterly Collection Rate:

### Quarter 1

Collection rate of 65% at 30 September 2017

### REVENUE COLLECTION ANALYSIS 2017/2018

| MONTH        | JULY          | AUG           | SEPT          |
|--------------|---------------|---------------|---------------|
| RECEIPTS     | 6,308,658.73  | 7,600,722.54  | 9,515,964.68  |
| BILLING      | 18,083,928.75 | 14,570,256.49 | 23,820,547.06 |
| % COLLECTION | -89%          | 42%           | 65%           |

The fluctuation in the collection rate is noted, collection rate was an average of 6% in the first quarter. With the implementation of the flat rate the department is hoping to see an improvement.

The department is also actively recovering old debt, which has yielded an improvement in receipts.

**ANALYSIS OF CASH & INVESTMENTS:**

| Investments by maturity<br>Name of institution & investment ID | Market value at end of the month |
|--|----------------------------------|
| <b>R thousands</b>   |                                  |
| <b>Municipality</b>  |                                  |
| FNB  | 9,934                            |
| NEDBANK  | 384                              |
| ABSA   | 31,781                           |
| INVESTEC   | 59                               |
| <b>TOTAL INVESTMENTS AND INTEREST</b>                          | <b>42,157</b>                    |

The table above reflects investments as at the end of the 1st quarter, and the various institutions at which the funds are unvested. The total investments for the first quarter totalled R42 million.

**Bank Balances**

The following reflects bank balances at 30 September 2017

| DESCRIPTION                   | JULY                  | AUGUST              | SEPTEMBER            |
|-------------------------------|-----------------------|---------------------|----------------------|
| FNB MAIN ACCOUNT 62252306280  | 269,648,277.03        | 4,241,746.63        | 19,693,382.00        |
| FNB WATER ACCOUNT 62253072385 | 0.00                  | 0.00                | 0.00                 |
|                               | <b>269,648,277.03</b> | <b>4,241,746.63</b> | <b>19,693,382.00</b> |
| <b>Total cash held</b>        | <b>19,693,382.00</b>  |                     |                      |


At the end of September 2017 cash on hand was R19.6 million



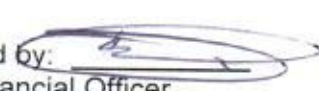
**ANALYSIS OF GRANTS RECEIVED:**

Conditional Grant allocations received during the quarter were as follows:

- MIG – R43 million an amount of R2 million remained unspent at the end of September 2017.
- FMG - R 1.7 million an amount of R.6 million remained unspent at the end of September 2017.
- EPWP - R 931 thousand which was fully spent at the end of September 2017. The over expenditure recorded on this grant is R575 thousand. The total expected allocation is R3.7 million
- RBIG – R30 million an amount which remained unspent at the end of September 2017.
- WSIG – R41 million an amount of R29 million remained unspent at the end of September 2017.

Prepared by   
Accountant: Budget

Reviewed by:   
Senior Manager Finance

Approved by:   
Chief Financial Officer

**Municipal manager's quality certificate**

I **Sifiso Nicholas Kunene**, **Municipal** Manager of UThukela District Municipality, hereby certify that the Section 52 and supporting documentation for September 2017 have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name: Sifiso Nicholas Kunene

Municipal Manager of UThukela District Municipality (DC23)

Signature: \_\_\_\_\_

Date : \_\_\_\_\_

16.10.17