

UTHUKELA

**UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY**

2017/18

MID YEAR REVIEW (S72)

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PURPOSE

To report to Council on the mid-year review of the financial and performance results for the first quarter of the 2016/17 financial year as required by section 72 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 Section 72 (1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (hereinafter referred to as the MFMA), the accounting officer of a municipality must by 25 January of each year-

- a) Asses the performance of the municipality during the first half of the financial year, taking into account-
 - i. the monthly statements referred to in section 71 for the first half of the financial year;
 - ii. the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
 - iii. the past year's annual report and progress on resolving problems identified in the annual report;

Comments from the Honourable Mayor

UThukela District Municipality has seen great progress at midyear in terms of service delivery in the 2017/18 financial year. Service providers have been appointed for various projects budgeted for this year and projects have commenced under constant supervision and monitoring. 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.

In other unfortunate highlights the municipality's rollover application for grants which remained unspent at the end of the 2016/2017 financial year was not approved. The amount of R70 million will be withheld from the equitable share. This will not only further strain our cash flow but will make the adjustments budget process a great challenge.

It must be noted that an amount of R246 million has been received from the budgeted total of R362 million of the equitable share and an amount of R139 million has been received in respect of the MIG (municipal infrastructure grant), R66 million in respect of MWIG (municipal water infrastructure grant), as well as R30 million in respect of RBIG (Regional Bulk Infrastructure Grant).

EXECUTIVE SUMMARY

In terms of Section 72 (1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (hereinafter referred to as the MFMA), the accounting officer of a municipality must by 25 January of each year-

- b) Asses the performance of the municipality during the first half of the financial year, taking into account-
 - iv. the monthly statements referred to in section 71 for the first half of the financial year;
 - v. the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
 - vi. the past year's annual report and progress on resolving problems identified in the annual report; and
- c) Submit a report on such assessment to-
 - i. the mayor of the municipality;
 - ii. the National Treasury; and
 - iii. the relevant Provincial Treasury

SUMMARY OF FINANCIAL PERFORMANCE

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

| Description | 2016/17 | Budget Year 2017/18 | | | | | |
|--|-----------------|---------------------|----------------|----------------|---------------|----------------|--------------------|
| | Audited Outcome | Original Budget | YearTD actual | YearTD budget | YTD variance | YTD variance % | Full Year Forecast |
| R thousands | | | | | | | |
| Revenue By Source | | | | | | | |
| Property rates | | | | | - | | |
| Service charges - electricity revenue | | | | | - | | |
| Service charges - water revenue | 139,715 | 245,892 | 105,106 | 122,946 | (17,840) | -15% | 245,892 |
| Service charges - sanitation revenue | 14,306 | 18,674 | 13,781 | 9,337 | 4,444 | 48% | 18,674 |
| Service charges - refuse revenue | | | | - | - | | |
| Service charges - other | | | | - | - | | |
| Rental of facilities and equipment | | | | - | - | | |
| Interest earned - external investments | 7,189 | 11,539 | 3,715 | 5,770 | (2,055) | -36% | 11,539 |
| Interest earned - outstanding debtors | 44,410 | 40,774 | 14,188 | 20,387 | (6,199) | -30% | 40,774 |
| Dividends received | | | | - | - | | |
| Fines, penalties and forfeits | | | | - | - | | |
| Licences and permits | | | | - | - | | |
| Agency services | | | | - | - | | |
| Transfers and subsidies | 347,535 | 367,387 | 249,020 | 183,694 | 65,327 | 36% | 367,387 |
| Other revenue | 4,781 | 4,384 | 3,106 | 2,192 | 914 | 42% | 4,384 |
| Gains on disposal of PPE | | | | - | - | | |
| Total Revenue (excluding capital transfers and contributions) | 557,936 | 688,650 | 388,916 | 344,325 | 44,591 | 13% | 688,650 |

**Budgeted
R344, 325**

**Actual Outcomes
R388, 916**

**% Variance
13**

Operating revenue recognised for the period July 2017 to December 2017 amounts to R388 million resulting in a 13% positive variance from the R344 million which was anticipated.

The 13 % variance although positive must 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 36% positive variance on transfers recognised, which is the direct impact of the 1st and 2nd tranche of the equitable share of R246 million.
- ii. Other revenue is 42% above the projected amount due to surges in insurance refunds, donations, penalty fees and tender document sales, to name a few classes of funds.
- iii. Sanitation revenue is 48% above the original budget, the under estimation will be rectified in the adjustments budget.

WATER & SANITATION SALES:

Water and sanitation sales income recognised combined is 33% above what was originally anticipated. Service charges water revenue is below the original estimate by 15% due to water restrictions which 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 negative variance of 30%, it appears we have billed less interest than we had originally anticipated this shows an improvement in the previously anticipated collection rate.

The debt write-off incentive has a direct impact on interest generated on outstanding debt. The budgeted figure will be reviewed accordingly.

INTEREST FROM INVESTMENTS:

A total of R3.7million has been recognised as interest from external investments resulting in a negative variance of 36%.

The municipality has become heavily dependent on investments due to our poor cash condition. Therefore interest from investments cannot be materialised. The figure will be reduced accordingly in the adjustments budget.

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ANALYSIS OF OPERATING EXPENDITURE (JULY - DECEMBER 2017)

| Description | 2016/17 | Budget Year 2017/18 | | | | | Full Year Forecast |
|---------------------------------|-----------------|---------------------|----------------|----------------|-----------------|----------------|--------------------|
| | Audited Outcome | Original Budget | YearTD actual | YearTD budget | YTD variance | YTD variance % | |
| R thousands | | | | | | | |
| Expenditure By Type | | | | | | | |
| Employee related costs | 218,649 | 241,092 | 129,582 | 120,546 | 9,037 | 7% | 241,092 |
| Remuneration of councillors | 5,483 | 6,454 | 3,843 | 3,227 | 616 | 19% | 6,454 |
| Debt impairment | 94,881 | 76,395 | - | 38,198 | (38,198) | -100% | 76,395 |
| Depreciation & asset impairment | 62,577 | 53,137 | - | 26,569 | (26,569) | -100% | 53,137 |
| Finance charges | 2,555 | 313 | 107 | 157 | (49) | -31% | 313 |
| Bulk purchases | 8,061 | 6,255 | 1,801 | 3,128 | (1,327) | -42% | 6,255 |
| Other materials | 34,235 | 40,322 | 9,545 | 20,161 | (10,616) | -53% | 40,322 |
| Contracted services | 95,543 | 40,611 | 19,824 | 20,306 | (481) | -2% | 40,611 |
| Transfers and subsidies | 4,776 | 26,600 | 16,894 | 13,300 | 3,594 | 27% | 26,600 |
| Other expenditure | 218,239 | 108,232 | 31,458 | 54,116 | (22,658) | -42% | 108,232 |
| Loss on disposal of PPE | 3,670 | | | | - | | |
| Total Expenditure | 748,670 | 599,411 | 213,055 | 299,705 | (86,651) | -29% | 599,411 |

Budgeted
R299, 705

Actual Outcomes
R 213,055

% Variance
- 29

The total operating expenditure of the municipality for the six month period is R213 million a 29% negative variance from the R 299 million which was anticipated.

EMPLOYEE RELATED COSTS:

Employee related cost incurred is 7% above what was budgeted for the six month period due to overtime. If overtime cutting measures are not implemented this negative variance is most likely to escalate by year end.

BULK PURCHASES:

An amount of R1.8 million has been paid in respect of bulk purchases, the completeness of invoices received from the department will be verified before any adjustment is effected. 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 53% negative variance from the amount originally budgeted. This is a material variance, maintenance and repairing of assets is going according to the adopted maintenance plan. However there are pending payments which upon settlement will reduce the variance.

TRANSFERS AND GRANTS:

This is the expenditure incurred in providing free basic services to the community, including water tankers. The budget is 27% 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 42% below what was budgeted. This is due to cost containment measures effected through the working budget. Individual votes within this line item will be analysed and adjustments effected accordingly in the adjustments budget.

SUMMARY OF CAPITAL PROJECT IMPLEMENTATION

| Vote Description | 2016/17 | Budget Year 2017/18 | | | | | |
|--|-----------------|---------------------|----------------|----------------|-----------------|----------------|--------------------|
| | Audited Outcome | Original Budget | YearTD actual | YearTD budget | YTD variance | YTD variance % | Full Year Forecast |
| R thousands | | | | | | | |
| <u>Multi-Year expenditure appropriation</u> | | | | | | | |
| <u>Single Year expenditure appropriation</u> | | | | | | | |
| 105 - MUNICIPAL MANAGER | 740 | 4,200 | - | 1,750 | (1,750) | -100% | 4,200 |
| 200 - CORPORATE SERVICES | 1,386 | - | - | - | - | - | - |
| 300 - BUDGET AND TREASURY | 225 | - | - | - | - | - | - |
| 405 - SOCIAL SERVICES | 38 | - | - | - | - | - | - |
| 408 - WSA & HEALTH SERVICES | - | - | - | - | - | - | - |
| 510 - WATER, SANITATION & TECHNICAL SERVICES | 238,478 | 367,339 | 140,251 | 153,058 | (12,807) | -8% | 367,339 |
| Total Capital Expenditure | 240,867 | 371,539 | 140,251 | 154,808 | (14,557) | -9% | 371,539 |

Budgeted
R 154, 808

Actual Outcomes
R 140, 251

% Variance
-9

The capital expenditure for the first quarter up to December 2017 is R140 million resulting in a negative variance of 9% from the previously projected R154 million

Projects relating to the Regional Bulk Infrastructure grant have come to a halt, pending reaching of a consensus between the municipality, uMngeni Water and Treasury regarding funding and transfer.

The amount of this grant included in the budget is R80 Million. Communication from treasury has been received regarding the intention to stop any further allocation transfers of this grant. At midyear R30 million had been received the necessary adjustments will be made in the adjustments budget.

ANALYSIS OF OUTSTANDING DEBTORS:

Age analysis at December 2017

| Description | Budget Year 2017/18 | | | | | | | |
|--|---------------------|---------------|---------------|---------------|---------------|----------------|----------------|--------------------|
| | 0-30 Days | 31-60 Days | 61-90 Days | 91-120 Days | 121-150 Dys | 151-180 Dys | Total | Total over 90 days |
| R thousands | | | | | | | | |
| Debtors Age Analysis By Income Source | | | | | | | | |
| Trade and Other Receivables from Exchange Transactions - Water | - | 20,253 | 15,559 | 19,070 | 13,576 | 676,551 | 745,008 | 709,196 |
| Other | 80 | 28 | 19 | 17 | 24 | 967 | 1,135 | 1,008 |
| Total By Income Source | 80 | 20,281 | 15,578 | 19,087 | 13,599 | 677,518 | 746,143 | 710,204 |
| 2016/17 - totals only | | | | | | | - | - |
| Debtors Age Analysis By Customer Group | | | | | | | | |
| Organs of State | - | 3,012 | 1,762 | 6,486 | 1,318 | 10,013 | 22,592 | 17,818 |
| Commercial | - | 2,863 | 1,336 | 786 | 596 | 28,313 | 33,894 | 29,695 |
| Households | - | 14,377 | 12,461 | 11,797 | 11,662 | 638,225 | 688,522 | 661,684 |
| Other | 80 | 28 | 19 | 17 | 24 | 967 | 1,135 | 1,008 |
| Total By Customer Group | 80 | 20,281 | 15,578 | 19,087 | 13,599 | 677,518 | 746,143 | 710,204 |

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

Debtors have fluctuated consistently during the six month period, totalling R746 million at midyear.

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Midyear Collection Rate:

The average collection rate stood at 48% at 31 December 2017

| MONTH | JULY | AUG | SEPT | OCT | NOV | DEC | TOTAL |
|-------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| RECEIPTS | 6,308,658.73 | 7,600,722.54 | 15,600,557.21 | 9,236,116.70 | 10,954,318.83 | 7,718,120.60 | 57,418,494.61 |
| BILLING | 18,083,928.75 | 14,570,256.49 | 23,820,547.06 | 21,777,011.07 | 19,935,151.86 | 20,700,487.91 | 118,887,383.14 |
| % COLLECTIO | -89% | 42% | 107% | 39% | 50% | 39% | 48% |

The fluctuation in the collection rate is noted, collection rate was an average of 48% at the end of the second quarter.

The department is also actively engaging debt collectors to assist in recovering old debt, which will yield an improvement in receipts.

ANALYSIS OF CASH & INVESTMENTS:

| Investments by maturity Name of institution & investment ID | Market value at end of the month |
|--|----------------------------------|
| R thousands | |
| Municipality | |
| FNB | 8,693 |
| NEDBANK | 390 |
| ABSA | 20,109 |
| INVESTEC | 20,200 |
| TOTAL INVESTMENTS AND INTEREST | 49,391 |

The table above reflects investments as at the end of the second quarter, at the various institutions. The total investments for the first quarter totalled R49 million.

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

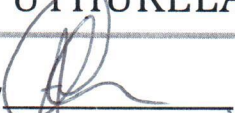
| Bank Balances | | | |
|--|----------------------|---------------------|---------------------|
| The following reflects bank balances at 31 December 2017 | | | |
| DESCRIPTION | OCTOBER | NOVEMBER | DECEMBER |
| FNB MAIN ACCOUNT 62252306280 | 25,989,708.95 | 7,008,910.76 | 5,705,985.42 |
| FNB WATER ACCOUNT 62253072385 | 0.00 | 0.00 | 0.00 |
| | 25,989,708.95 | 7,008,910.76 | 5,705,985.42 |
| Total cash held | 5,705,985.42 | | |


ANALYSIS OF GRANTS RECIEVED:

Conditional Grant allocations received at the end of the second quarter were as follows:

- MIG – R139 million
- FMG - R 1.7 million
- EPWP - R 2.6 million
- RBIG – R30 million an amount which remained unspent at the end of December 2017.
- WSIG – R66 million

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Prepared by: 
Accountant: Budget

Reviewed by: 
Senior Manager Finance

Approved by: _____
Chief Financial Officer

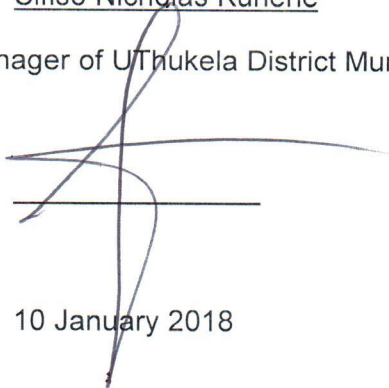
Municipal manager's quality certificate

I **Sifiso Nicholas Kunene**, **Municipal** Manager of UThukela District Municipality, hereby certify that the Section 72 and supporting documentation for December 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:

A handwritten signature in dark ink, appearing to be 'Sifiso Nicholas Kunene', written over a horizontal line. The signature is stylized and extends above and below the line.

Date: 10 January 2018