

UTHUKELA

**UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY**

2018/19

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 2018/19 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 challenges in the 2018/19 financial year and consequentially is now under administration in terms of S139 of the MFMA. Service delivery has thus been affected in the 2018/19 financial year. Council has however responded positively and has equally supported the intervention. A financial recovery plan has been set in motion and an interim finance committee has been established. At midyear the positive effects of the fore mentioned have been noted.

The various capital projects budgeted for this financial year have commenced under constant supervision and monitoring.

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 who are part of the interim finance committee have been monitoring this budget and have kept an eye on the identified cost drivers. This will essentially 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 2017/2018 financial year was not approved. The amount of R46 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 R236 million has been received from the budgeted total of R351 million of the equitable share and an amount of R145 million has been received in respect of the MIG (municipal infrastructure grant) and R45 million in respect of MWSIG (municipal water services 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 2018) EXCLUDING CAPITAL TRANSFERS:

Description	2017/18	Budget Year 2018/19							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	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	151,993	260,645	260,645	19,298	148,090	130,323	17,767	14%	260,645
Service charges - sanitation revenue	17,253	31,019	31,019	1,364	8,549	15,510	(6,961)	-45%	31,019
Service charges - refuse revenue		-	-			-	-		-
Service charges - other						-	-		
Rental of facilities and equipment						-	-		
Interest earned - external investments	4,192	6,572	6,572	606	2,176	3,286	(1,110)	-34%	6,572
Interest earned - outstanding debtors	43,393	50,456	50,456	4,406	26,539	25,228	1,311	5%	50,456
Dividends received						-	-		
Fines, penalties and forfeits		50	50	-	12	25	(13)	-52%	50
Licences and permits						-	-		
Agency services						-	-		
Transfers and subsidies	368,613	405,533	405,533	86,731	240,255	202,767	37,489	18%	405,533
Other revenue	12,710	4,098	4,098	98	1,361	2,049	(689)	-34%	4,098
Gains on disposal of PPE							-		
Total Revenue (excluding capital transfers and contributions)	598,154	758,374	758,374	112,502	426,982	379,187	47,795	13%	758,374

Budgeted
R379, 187

Actual Outcomes
R426, 982

% Variance
13

Operating revenue recognised for the period July 2018 to December 2019 amounts to R426 million resulting in a 13% positive variance from the R379 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 18% positive variance on transfers recognised, which is the direct impact of the 1st and 2nd tranche of the equitable share of R236 million.
- ii. Water sales is 7% above the projected amount due to the opening of new accounts which were previously not accounted for in the original budget.
- iii. Interest on outstanding accounts has a positive variance of 5% the under estimation will be accordingly projected into the adjustments budget

WATER& SANITATION SALES:

Water and sanitation sales income recognised combined is 31% below what was originally anticipated. This is due to the over estimation of sanitation sales in the original budget. Looking at the audited figure as at June 2018 of R15 million the sanitation sales figure will be accordingly rectified in the adjustments budget.

INTEREST FROM OUTSTANDING DEBTORS:

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

The municipality has appointed debt collectors, further to that the municipality will now appoint a panel of debt collectors. This will improve the collection of outstanding debt. There is also direct liaising with government departments in attempt to recover outstanding debts. The municipality anticipates an improvement in the collection rate by year end due to these efforts.

INTEREST FROM INVESTMENTS:

A total of R2.1 million has been recognised as interest from external investments resulting in a negative variance of 34%.

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 2018)

Description	2017/18	Budget Year 2018/19							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
Expenditure By Type									
Employee related costs	253,203	271,837	271,837	23,647	147,101	135,918	11,183	8%	271,837
Remuneration of councillors	6,550	8,156	8,156	538	3,303	4,078	(775)	-19%	8,156
Debt impairment	128,481	136,628	136,628	109,459	109,459	68,314	41,145	60%	136,628
Depreciation & asset impairment	68,222	86,634	86,634	-	21,539	43,317	(21,778)	-50%	86,634
Finance charges	2,789	561	561	-	108	281	(172)	-61%	561
Bulk purchases	3,440	6,586	6,586	-	-	3,293	(3,293)	-100%	6,586
Other materials	-	16,023	16,023	51	2,729	8,011	(5,282)	-66%	16,023
Contracted services	88,701	117,869	117,869	3,393	21,266	58,935	(37,669)	-64%	117,869
Transfers and subsidies		1,000	1,000	-	323	500	(177)	-35%	1,000
Other expenditure	141,542	74,815	74,815	2,678	32,998	37,407	(4,410)	-12%	74,815
Loss on disposal of PPE						-	-		
Total Expenditure	692,928	720,109	720,109	139,766	338,827	360,055	(21,227)	-6%	720,109

Budgeted
R360, 055

Actual Outcomes
R 338,827

% Variance
- 6

The total operating expenditure of the municipality for the six month period is R338 million a 6% negative variance from the R 360 million which was anticipated.

EMPLOYEE RELATED COSTS:

Employee related cost incurred is 8% above what was budgeted for the six month period due to the payment of bonuses in November 2018 which has not been accounted for in the calculation of the variance. Overtime also remains a major cost driver should overtime cutting measures not be implemented, this negative variance is most likely to escalate by year end.

BULK PURCHASES:

No amount has been paid in respect of water purchases, due to the incompleteness of invoices received from the Department of Water Services. The amount due at mid-year will be verified before any adjustment is effected.
The old debt as per the agreement with the department at a rate of R1 million per month has been fully settled.

OTHER MATERIALS:

The bulk of other materials comprises of fuel, oil and chemicals. Other materials have a variance of 66% negative variance from the amount originally budgeted. However council must also note that there are also outstanding payments which upon settlement will reduce the variance.

CONTRACTED SERVICES:

The bulk of contracted services comprise of vehicle repairs, water tankers, repairs to pumps and pipe lines. A number of payments for such contracted services remain outstanding and once payments have been verified and accounted for the necessary adjustment will be effected in the adjustments budget.

TRANSFERS AND GRANTS:

This is the expenditure incurred in providing free basic services to the community, including student bursaries. The budget is 35% below what was anticipated.

GENERAL EXPENDITURE:

General expenditure is 12% 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.

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SUMMARY OF CAPITAL PROJECT IMPLEMENTATION

Vote Description R thousands	Budget Year 2018/19							
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Single Year expenditure appropriation								
Organisational Structure Votes	-	-	-	-	-	-		-
105 - MUNICIPAL MANAGER	-	-	-	-	-	-		-
200 - CORPORATE SERVICES	-	-	-	-	-	-		-
300 - BUDGET AND TREASURY	27	27	-	10	11	(1)	-11%	27
405 - SOCIAL SERVICES(PLANNING&ECONOMIC DEV)	-	-	-	-	-	-		-
408 - WSA& HEALTH SERVICES	-	-	-	-	-	-		-
500 - WATER, SANITATION AND TECHNICAL SERVICES	407,804	407,804	18,950	106,000	169,918	(63,918)	-38%	407,804
Total Capital Multi-year expenditure	407,831	407,831	18,950	106,010	169,930	(63,919)	-48%	407,831

Budgeted
R 169,930

Actual Outcomes
R 106,010

% Variance
-48

The capital expenditure for the first quarter up to December 2018 is R106 million resulting in a negative variance of 48% from the previously projected R169 million

Projects relating to the Regional Bulk Infrastructure grant have been transferred from municipality to uMngeni Water . There is an agreement between uMngeni Water and the municipality to handover bulk water infrastructure to uMngeni Water. Therefore all bulk infrastructure projects will be implemented by uMngeni Water

The amount of this grant included in the budget is R142 Million. Communication from treasury has been received regarding the intention to stop any further allocation transfers of this grant. At midyear no amount had been received the necessary adjustments will be made in the adjustments budget.

ANALYSIS OF OUTSTANDING DEBTORS:

Age analysis at December 2018

Description	Budget Year 2018/19									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	20,698	28,137	63,757	19,858	18,483	17,496	81,050	685,652	935,131	822,539
Other	-	-	41	18	-	-	-	-	60	18
Total By Income Source	20,698	28,137	63,798	19,876	18,483	17,496	81,050	685,652	935,190	822,557
2017/18 - totals only									-	-
Debtors Age Analysis By Customer Group										
Organs of State	2,478	2,023	6,198	616	1,157	1,313	6,043	12,425	32,253	21,553
Commercial	(2,133)	7,703	19,564	3,167	1,022	1,145	6,571	25,366	62,405	37,272
Households	20,353	18,411	37,995	16,074	16,305	15,037	68,436	647,861	840,472	763,714
Other	-	-	41	18	-	-	-	-	60	18
Total By Customer Group	20,698	28,137	63,798	19,876	18,483	17,496	81,050	685,652	935,190	822,557

Reflected above is the age analysis of debtors for the months of July – December 2018 totalling R935 million at midyear.

Midyear Collection Rate:

The average collection rate stood at 41% at 31 December 2018

CONSUMER DEBTORS - PAYMENTS VS BILLING AS AT 31 DECEMBER 2018				
MONTH	BILLING	MONTHS	RECIEPTS	RECOVERY RATE
June 2018	27,665,055.03	July 2018	7,368,004.69	27%
July 2018	28,747,599.55	August 2018	10,205,364.11	35%
August 2018	20,935,908.76	September 2018	10,652,597.97	51%
September 2018	23,556,281.37	October 2018	17,966,279.90	76%
October 2018	24,678,929.20	November 2018	9,642,803.08	39%
November 2018	38,059,371.57	December 2018	8,366,386.49	22%
December 2018	20,661,189.24			0.00%
	156,639,279.69		64,201,436.24	41%
TOTALS				
BILLING - JULY 2018- DECEMBER 2018		156,639,279.69		
RECIEPTS - JULY 2018- DECEMBER 2018		64,201,436.24		
DIFFERENCE		92,437,843.45		41%

The fluctuation in the collection rate is noted, collection rate was at an average of 41% at the end of the second quarter.

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

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ANALYSIS OF CASH & INVESTMENTS:

Investments by maturity Name of institution & investment ID	Market value at end of the month
R thousands	
Municipality	
FNB	31,104
NEDBANK	-
INVESTEC	56,940
ABSA	20,382
Municipality sub-total	108,425

The table above reflects investments as at the end of the second quarter, at the various institutions. The total investments at mid-year totalled R108 million.

At the end of December 2018 cash on hand was R31.4 million

Bank Balances				
The following reflects bank balances at 31 December 2018				
DESCRIPTION	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
FNB MAIN ACCOUNT 62252306280	8,902,089.70	4,817,803.95	7,634,668.42	31,483,823.00
FNB WATER ACCOUNT 62253072385	0.00	0.00	0	0
	8,902,089.70	4,817,803.95	7,634,668.42	31,483,823.00
Total cash held	31,483,823.00			

ANALYSIS OF GRANTS RECEIVED:

Below is a detailed analysis of conditional grant income and expenditure. Expenditure to date expressed as a percentage based on the total expected budget.


UTHUKELA DISTRICT MUNICIPALITY GRANT REGISTER - 2018/ 2019

Summary of Grants received, expenditure & Funds available as at 31 December 2018

	Unaudited Balance as at	Roll-over not approved	Budget Amount 2018/2019	Received	Spent & transferred to income	Closing Balance/ Unspent	
Grant Type	01/07/2018			2018/19	2018/19	2018/19	2018/19
RURAL ROAD ASSET MANAGEMENT SYSTEM			2 488 000.00	1 742 000.00	0.00	1 742 000.00	0%
MIG			180 033 000.00	145 000 000.00	83 177 000.31	61 822 999.69	46%
FMG GRANT			1 545 000.00	1 545 000.00	972 886.30	572 113.70	63%
RBIG	46 379 798.00	46 379 798.00	142 283 000.00	0.00	2 662 924.14	-2 662 924.14	2%
EPWP INTERGRATED GRANT			6 206 000.00	1 553 000.00	2 658 085.41	-1 105 085.41	43%
WATER & SANITATION INFRASTRUCTURE GRANT			83 000 000.00	45 000 000.00	20 160 850.63	24 839 149.37	24%
DEVELOPMENT PLANNING GRANT	210 695.00		300 000.00	300 000.00	510 695.00	0.00	100%
LGSETA	336 941.59			203 185.00		540 126.59	0%
DISTRICT GROWTH DEVELOPMENT	2 580.00					2 580.00	0%
NODAL PLAN GRANT				1 000 000.00		1 000 000.00	0%
RASET PROGRAM				3 000 000.00		3 000 000.00	0%
	46 930 014.59	46 379 798.00	415 855 000.00	195 343 185.00	110 142 441.79	85 210 833.21	

- RBIG - The 2% expenditure incurred under the Regional Infrastructure Grant at midyear will have to be funded by council since the roll-over was not approved and no further receipts are expected.
- EPWP - the total expenditure on this grant stood at 43%. The closing balance is negative because expenditure has exceeded the total received.
- RURAL ROADS- No expenditure has been incurred under this grant, which may result in an unspent balance at year end.

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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 2018 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: 14 January 2019