

2010/11



**MID-YEAR BUDGET AND
PERFORMANCE REPORT**

**EMTHANJENI
MUNICIPALITY**

Mid-year Budget and Performance Assessment Report

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INTRODUCTION

In terms of Section 72(1)(a) and 52(d) of the Local Government Municipal Finance Management Act No. 56 of 2003 (MFMA) the Accounting Officer must by 25 January of each year assess the performance of the municipality during the first half of the financial year. A report on such assessment must in terms of Section 72(1)(b) of the MFMA be submitted to the Mayor, Provincial Treasury and National Treasury.

Once the Mayor has considered the report, he must submit the report to Council by 31 January in terms of Section 54 of the MFMA.

The audit of the 2009/10 financial year included various findings of matters that require correction to the Service Delivery Budget Implementation Plan and we are currently in the process of finalizing these corrections. As a result the assessment of the first half of the financial year performance has been delayed and we are in the process of finalizing these assessments. The mid-year performance reports and supporting tables of Emthanjeni Municipality, prepared in accordance with MFMA Circular 13 and the Municipal Budget and Reporting Regulations, to illustrate the performance in graphical and tabular format will be submitted in a supplementary report.

During the 1st six months we worked with a total staff compliment of 338. Although we have budgeted for an amount of R43'778'541 for the total establishment of 367 we have experienced challenges to recruit people with the required skills and capacity.

Although we have structured ourselves to deliver the services required, we could not deliver in all instances due to the lack of appropriate funds but we continuously strive to deliver on the objectives and targets approved by the Mayor as set out in the Service Delivery and Budget Implementation Plan (SDBIP).

BUDGET PERFORMANCE ANALYSIS

OPERATIONAL EXPENDITURE AND INCOME PERFORMANCE

Approximately 38.5% of the budgeted operating expenditure of the R158'966'453 was spent as at the end of December 2010. Indications are that the budgeted amount will be 100% spent as at the end of the 2010/11 financial year.

Whilst projections have been conservatively made, an overall forecasted surplus of approximately R5 million, before transfers to fund capital, is being anticipated.

The budgeted income and expenditure for the Electricity Vote has to be recalculated, taking the analytical, actual and current patterns into consideration. The other minor income sources

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together with expenditure patterns are necessary to be re-looked and recalculated as an Adjustment Budget for 2010/2011 is much needed.

The payment percentage level of Emthanjeni Municipality is above the 80% on average for the past six months. This will contribute to budgeted income that will not be fully generated. This is also evident in the increase of debtors control balances of the different services.

The establishment of SCM unit has been finalised and is in operation. More capacitation programmes need to be undertaken by the SCM officials in order to fully capacitates them. Only then will the unit be fully operational and functional.

A summary of Budgeted Income and Budgeted Expenditure vs. Actual Income and Actual Expenditure in tabular format for the six months ending 31 December 2010 are as follows:

INCOME

Main source	Total Annual Budget	Six months Budget	Six months Actual	Reasons for Variance
Operating Income				
Assessment Rates	16'123'264	8'061'636	8'127'188	
Electricity				Budgeted income overstated due to price increases. Consumer's consumption decreases due to higher tariffs.
-Conventional	31'554'902	15'777'450	14'539'711	
-Prepaid	10'349'160	5'174'580	5'371'559	
Water	13'119'848	6'559'920	6'984'378	Increase due to new households connections and occupations
Sewerage	10582848	5291202	5339253	Increase due to new households connections and occupations
Refuse	6'180'349	3'085'170	3'138'039	Increase due to new households connections and occupations

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Rental of Facilities	433'351	216'660	253'637	
Interest Earned				Capitalisation of interest on investments will only be done in June 2011.
-External Investment	640'000	319'998	178'429	
-Outstanding Debtors	756'000	377'994	480'451	
Fines	8'985'130	4'492'560	1'563'740	Fines Income will be rectified during the first quarter of 2011.
Licenses and Permits	1'032'680	516'330	562'401	
Grants and Subsidies	32'533'000	16'348'968	22'358'607	
Capital Grants	11'386'667	5'693'328	0	Revenue will be recognized at end of financial year. Reconciliation between spent vs. unspent will be done once expenditure is incurred. Major expenses will be incurred during March 2011.
Other Revenue	116'561	235'008	640'253	
<i>Income Forgone</i>				
Total Revenue	144'258'918	72'211'800	69'631'474	

Electricity Actual income of R19'911'270 for the six months are lower than expected. The budgeted income is over budgeted with almost 5%. The following factors are contributing towards the shortfall of budgeted income vs. actual income:

- a) Conscious reduction of electricity usage by all consumers of Emthanjeni Municipality.
- b) The economic slowdown of Households to drastically reduce electricity consumption of domestic usage and the non-payment of municipal services.
- c) Eskom's initiatives of electricity saving mechanisms in the national media and television.
- d) The bulk installation and conversion of prepaid meters of indigent households from conventional meters.

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The Adjustment Budget for electricity income will take these and other factors in consideration when the budget will be tabled to Council.

OPERATIONAL EXPENDITURE

Main source	Total Annual Budget	Six months Budget	Six months Actual	Reasons for Variance
Operating Expenditure				
Employee costs				Employee costs are in line with the budgeted expenditure. Bonuses are being paid out during the year but the month of November the majority of bonuses are being paid. This affects the Cash flow slightly.
-Salaries and Wages	35'846'989	17'923'134	17'787'953	
-Social Contributions	7'931'552	3'965'322	3'835'443	
Council Remuneration	3'358'461	1'679'214	1'516'595	
Bad Debts	7'313'179	3'656'574	0	Amounts will be processed at year-end.
Performance Bonuses				
Collection Costs	427'344	2'363'658	2'571'165	This expense is due to the collection and increase sales of prepaid electricity.
Depreciation	14'343'584	0	0	Amounts will be processed at year-end.
Rehabilitation of Landfill site costs	160'000	80'000		
Repairs and Maintenance	7'904'362	3'952'008	3'081'014	
Interest Paid	2'039'846	1'019'856	329'991	Amounts will be

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				processed at year-end
Bulk Purchases				
-Electricity	26'140'920	13'070'460	14'033'416	Eskom price increment influenced the budgeted expenditure.
-Water	680'000	339'996	452'350	
Contracted Services	320'000	159'996	15'345	
Grant expenditure				Operating exp will be processed also at end of financial year
-Operating	11'317'197	5'658'876	2'878'972	
-Capital	11'386'667	5'693'316	1'993'578	MIG tender was awarded in Dec 2010 and project start in Jan 2011. Major expenditure will be incurred or paid in March 2011.
-Own Revenue Capital Acquisitions	5'795'372	2'897'646	2'598'373	
Other Expenditure	19'497'030	10'547'627	9'833'443	
Total Expenditure	158'966'453	80'281'073	61'130'723	

The total actual expenditure of R61'130'723 are well within the budgeted limits for the six months. Proper expenditure control mechanisms are in place. Within these controls, a serious danger of under budgeting can also occur.

The total depreciation amount will only be allocated at year end.

The following expenditure items will, however, require adjustment due to the following:

(i) Fuel and Oil

The actual expenditure for the six months is slightly more than the budgeted amount. This expenditure is driven by macro economic factors beyond our control.

(ii) Municipal Rates Valuation Expenditure

This valuation process has to be completed by the end of January 2012 of which a Final Valuation Roll needs to be completed and to be handed to the Municipal Manager before the end of January 2012. A New Service Provider for the compilation of a general valuation roll will be appointed within the next quarter and the new GVR will be

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implemented by 01 July 2012. This process is crucial, as it will rectify all challenges experienced with the provision in the Municipal Property Rates Act (**MPRA**) to the original Municipal Valuation Roll.

(iii) Subsistence and Travel

The actual expense paid during the past six months of R1'228'251 represents almost 78% of the total budgeted expense for the various departmental expenses. This budgeted expense will be exhausted before the end of the financial year. The current actual expenditure relates mainly to the SAIMSA Games that was attended by our Municipal Councilors and Officials during September 2010 in Tzaneen, the Limpopo province.

Strict measures will be applied by the office of the Municipal Manager and the Directors over the next six (6) months. Only absolutely necessary claims will be authorized by the Municipal Manager and the Directors according to the approved budget. The Subsistence and Travel budgeted expenditure for Councilors and Officials need to be adjusted.

(iv) Ward and Capital expenditure

Huge amounts are already committed to this expenditure, but will only reflect after the invoices and payments have been finalised. All the expenditure will be fully realised before the end of the financial year as several tenders have been awarded during the past six months. Actual work and invoices will be paid after December 2010.

CAPITAL BUDGET PERFORMANCE

The capital expenditure as at the end of December 2010 is R4'591'952 which represents 28.24% of the total capital budgeted amount.

The main areas of capital spend are as follows:

CAPTITAL EXPENDITURE BY GFS FUNCTION	CAPITAL BUDGETED EXPENDITURE	ACTUAL EXPENDITURE	REASONS FOR VARIANCE
Executive & Council	150'000	22'884	Project is continue
Finance & Admin	1'247'900	91'023	Continuous
Planning and Development	9'570'000	857'049	Continuous
Community & Social Services	140'000	100'742	Continuous

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Public Safety	250'000	56'103	In progress
Sport & Recreation	1'276'667	877'632	Lotto funding needs to start
Road Transport	3'024'380	2'216'995	Continuous
Other	0	0	Continuous
Solid Waste Management	46'492	0	Continuous
Waste Water Management	0	25'900	MIG Allocations that will be received
Electricity	540'000	64'833	Grant will not be received
Water	15'000	0	Project is underway
Housing	0	0	New projects were awarded
TOTAL	16'260'439	4'591'952	

Spending mainly reflect the projects that were financed out of own funding sources. However, the ward development projects only started in October 2010, but all budgeted amounts will realize at year end.

Several tenders have been awarded and MIG expenditure will only be incurred during the first quarter of 2011. Bidders, contractors and service providers that have been appointed late in December 2010, and has started late during the the last quarter of 2010.

SERVICE DELIVERY PERFORMANCE ANALYSIS

The service delivery performance analysis will be submitted in a supplementary report once the evaluation of performance is finalized.

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FINANCIAL PERFORMANCE ANALYSIS

OUTSTANDING DEBTORS

Analyses of outstanding debtors

	Rates	Trading services (Electricity and Water)	Economic services (Sanitation and Refuse)	Other	Total
	R'000	R'000	R'000	R'000	R'000
As at 31 December 2010	6,375,033	26,443,731	13,386,375	1,317,523	47,552,662

Age analyses

	Less than 30 days	Between 30-60 days	Between 60-90 days	More than 90 days	Total
	R'000	R'000	R'000	R'000	R'000
As at 31 December 2010	4,940,415	2,972,202	2,381,440	37,228,605	47,522,662
% representation	10	6.3	5	78.7	100

The current international and national economic situation has enormously impacted on the socio-economic conditions within the community of Emthanjeni Municipality.

The increase in all tariffs, lead to the increase in consumer debtors. The reflection and history shown that the "same type of consumer debtor" continues not to pay for municipal services.

The following list of debtors will be presented to Council for possible consideration to write off debts which are:

- (i) Untraceable and irrecoverable debtors;
- (ii) Indigent Households;

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- (iii) Deceased owners who have no assets, cash or property in the deceased will;
- (iv) Consumers who left the towns without leaving valid and reputable contacted details and forwarding addresses.
- (v) Recovery of debt
 - The overall payment percentage is above the 80 %.
 - The continuous monthly shortfall of ± R1, 500 000 remains a worrying factor. Although credit control policies are implemented, much more needs to be done all the staff, finance, administration, infrastructure, etc.
 - The re-introduction and of the popularisation of “payment Campaigns” need to be established and developed by all internal stakeholders of the Emthanjeni Municipality. Credit Control is taking place, but more focuses will be placed on Businesses and economic active consumers.

Council must consider and developed a collecting campaign by encouraging economic active consumers who fell behind with their municipal accounts.

MUNICIPAL TURNAROUND STRATEGY

Quarterly progress reports were submitted to COGTA on the identified KPI's of the Municipal Turnaround Strategy. These indicators are on track and ongoing. The financial challenges are being dealt with in accordance with the strategy.

The improvement of the audit opinion remains on of the top priorities of the TAS:

- a) This is a continuous process that needs all stakeholders and more specific internal stakeholders to improve on the weaknesses identified in the audit opinion of 30 June 2010. The tackling of this challenge must be a collective effort from Council, management and staff.
 - Management and the whole work force must be committed and strive to improve its internal controls and mechanisms.
 - This performance target is of a very high priority of Management together with the Council of Emthanjeni.
 - The fully implementation of GRAP Accounting standards remains one of the biggest challenges facing the municipality and more specific the Finance Directorate. These identified factors will be overcome with the co-operation and assistance and dedication of all staff in Emthanjeni Municipality.

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- At the same, acknowledgement was given by the auditors that major improvements was very efficient during the audit of 2010 and also in the audit management letter, in comparison to the previous years, although the audit opinion reflects otherwise.

ADJUSTMENTS BUDGET

Regulation 23 of the Municipal Budget and Reporting Regulations provides, *inter alia* for the following:

“An adjustment budget may be tabled in the Municipal Council at any time after the Mid-year Budget and Performance Assessment has been tabled in the Council, but not later than 28 February of each year. Furthermore, except under certain circumstances only one adjustment budget may be tabled in Council during a financial year.”

The following matters will, *inter alia*, be included in the Adjustments Budget:

- 1) Expenditure for the Operation Clean-Audit as well as the compilation and production of the FAR in order to comply with GRAP standards and GRAP 17 in particular..
- 2) Subsistence and Travel Allowances for Councillors and officials needs to be upwardly adjusted.
- 3) The budgeted income for the following must be amended.
 - a) Electricity Revenue
 - b) Other Revenue
- 4) The impact of the Supplementary and General Valuation roll for the current financial year and also next financial year.
- 5) The current economic situation also does not stimulate the payment levels of the consumers. Vigorous efforts from all need to be employed to improve the payment percentage as it must not just be seen as a credit control unit function.
- 6) The expenses for the Branding needs to be augmented, as the original amount budgeted for was totally under budgeted. Ward project expenditure needs to be looked at as these votes are currently overspent.
- 7) Some capitalisation of assets vote is also overspent.
- 8) The PMS Framework expenditure needs to be budgeted for as the original budget is totally insufficient.

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Accordingly a report on adjustments to the budget will be submitted for consideration by Council before 28 February 2011.

COMMENTS ON THE ANNUAL REPORT

The annual report of the 2009/10 financial year has been tabled to Council on 24 January 2011. Corrective actions that will be identified will be addressed in an Action Plan. The Draft Annual Report will be advertised for public comment.

This plan will be presented to our Municipal Public Accounts Committee (MPACC) and monitored by the Municipal Manager on a monthly basis.

Oversight Report on the Annual Report will be submitted to Council by 31 March 2011.

Isak Visser

MUNICIPAL MANAGER

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ANNEXURE B — STATEMENT OF CAPITAL AND OPERATING EXPENDITURE - CAPITAL EXPENDITURE (PART 2)

ANNEXURE C — STATEMENT OF CAPITAL AND OPERATING EXPENDITURE - CASH RECEIPTS AND PAYMENTS (PART 3)

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WORKFORCE PROFILE FOR THE MUNICIPALITY

ANNEXURE F — SUMMARY OF PERSONNEL NUMBERS (TABLE SA24)
