

Report To: **BUDGET STEERING COMMITTEE (12 OCTOBER 2016)**

File ref : 5/14/1/2/1 **BSC 5.1**

Date : 12 October 2016

SUBJECT: MONTHLY REPORT: 31 SEPTEMBER 2016

REPORT DATED 11 OCTOBER 2016 FROM THE CHIEF FINANCIAL OFFICER TO THE COMMITTEE

PURPOSE:

The purpose of this item is to submit a financial report for the month ending SEPTEMBER 2016 to the Committee for **APPROVAL**.

LEGAL COMPLIANCE:

In terms of Section 71 of the Municipal Finance Management No.56 of 2003

BACKGROUND:

It is the role of the Budget & Treasury Office to table, on a monthly basis, financial report indicating the financial performance of the institution at a given point in time. The attached report attempts to comply with that requirement, for the period ending SEPTEMBER.

DISCUSSION:

- Annexure 1 - Operating Income and Expenditure as at end SEPTEMBER 2016.
- Annexure 2 – Capital Expenditure per Vote as at end SEPTEMBER 2016.
- Annexure 3 – 12 Supporting Documents



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In-Year Report of the Municipality

Prepared in terms of the Local Government: Municipal Finance
Management Act (56/2003): Municipal Budget and Reporting
Regulations, Government Gazette 32141, 17 May 2009.

Monthly Budget Statement SEPTEMBER 2016

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Glossary

Adjustments budget – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.
Allocations – Money received from Provincial or National Government or other municipalities.
Budget – The financial plan of the Municipality.
Budget related policy – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy, credit control and debt collection policy.
Capital expenditure - Spending on assets such as land, buildings and machinery.
Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.
Cash flow statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.
DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.
Equitable share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.
Fruitless and wasteful expenditure – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.
GFS – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.
GRAP – Generally Recognised Accounting Practice. The new standard for municipal accounting.
IDP – Integrated Development Plan. The main strategic planning document of the Municipality.
IHHS – Informal Housing and Human Settlements, provincial grant.
KEDA – Entity of Makana Municipality, Makana Economic Development Agency.
MBRR – Local Government: Municipal Finance Management Act (56/2003): Municipal budget and reporting regulations.
MDMG – Municipal Disaster Management Grant.
MFMA – Local Government: Municipal Finance Management Act (56/2003). The principle piece of legislation relating to municipal financial management. Sometimes referred to as the Act.
MIG – Municipal Infrastructure Grant.
MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.
NDPG – Neighbourhood Development Partnership Grant.
Operating expenditure – Spending on the day to day expenses of the Municipality such as salaries and wages
Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.
SDBIP – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.
Strategic objectives – The main priorities of the Municipality as set out in the IDP.
Budgeted spending must contribute towards the achievement of the strategic objectives.
Unauthorised expenditure – Generally, is spending without, or in excess of, an approved budget.
Virement – A transfer of budget.
Virement policy - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by Council through an Adjustments Budget.
Vote – One of the main segments into which a budget. In Makana Municipality this means at directorate level.

PART 1 – IN-YEAR REPORT

Section 1 – Mayor's Report

1.1 In-Year Report - Monthly Budget Statement

The monthly budget statement for September 2016 has been prepared to meet the legislative requirements of the Municipal Budget and Reporting Regulations.

1.1.1 Financial problems or risks facing the municipality

The municipality continues to experience challenges regarding liquidity. This is mainly due to the under-collection of revenue and large outstanding debt owed to creditors carried over from previous financial years. The following strategies were put in place:

- A service provider has been appointed to implement the Revenue Enhancement Plan and data cleansing of Debtors. Based on the appointment, the municipal collection rate for 15/16 financial year is forecasted at 85%. As at 30 September 2016, the collection rate is 143%. Part of rates payments made in September were already billed in August 2016.
- Improving financial sustainability through budget restructuring, Implementation of revenue enhancement initiatives
- Cost containment measures
- Reduction of irregular expenditure and fruitless and wasteful expenditure
- Improving financial data integrity

RECOMMENDATION:

(a) That BUDGET STEERING COMMITTEE notes the monthly budget statement and supporting documentation for SEPTEMBER 2016.

2. Executive Summary

2.1 Introduction

The monthly Sec 71 reports aims to provide a regular update on indicators critical to the organisation's viability and serve as an early warning indicator where remedial action is required.

The Municipal Manager of the Municipality, is required by Section 71(1) of the Municipal Finance Management Act to submit a report in a prescribed format to the Mayor within 10 working days after the end of each month on the state of the Municipality's budget.

This report is a summary of the main budget issues arising from the monitoring process. It compares the progress of the budget to the projections contained in the Service Delivery and Budget Implementation Plan (SDBIP). Section 54 of the MFMA requires the Mayor to consider the Section 71 report and take appropriate action to ensure that the approved budget is implemented in accordance with the SDBIP.

3. Consolidated Performance

The following table summarises the overall position on the capital and operating budgets. Take note that the Operating Expenditure only reflects the direct expenditure and exclude all indirect expenditure e.g. Administrative Recharges.

	Original Budget R'000	Adjustment Budget R'000	Actual R'000	Annual Budget %
Operating Revenue (billed)	486 191	-	189 303	40%
Operating Expenditure (accrued/actual mix)	486 191	-	78 433	16%
Capital Expenditure	170 043	-	2 894	2%

Revenue by Source

Year-to-date Operating Revenue amounts to **40% or R189 303 million** of the operating budget of **R486 191 million**.

The year-to-date Operating Revenue reflects an achievement of **40% or R189 303 million** of the annual budget of R486 191 million, and Operating Expenditure is **16% or R78 433 million** of the annual budget of R486 191 million.

Operating Revenue

Major contributors of Operating Revenue to date amounting to R189 303 million are:

- Service Charges-Electricity at R33 270 million or 18%
- Operational Transfers recognised at R33 964 million or 18%.
- Property Rates at R56 321 million or 30%.
- Service Charges-Water R9 243 million or 8%

Operating expenditure by type

Year-to-date expenditure amounts to **16% or R78 433 million** of the operating budget of **R486 191 million**.

Operating Expenditure

Major contributors of Operating Expenditure to date amounting to R42 754 million are:

- Employee-related costs at R36 699 million or 86%
- Remuneration of councillors at R2 565 million or 6%.
- Bulk Purchases at R5 433 million or 13%
- Repairs & maintenance at R1 847 thousand or 4%

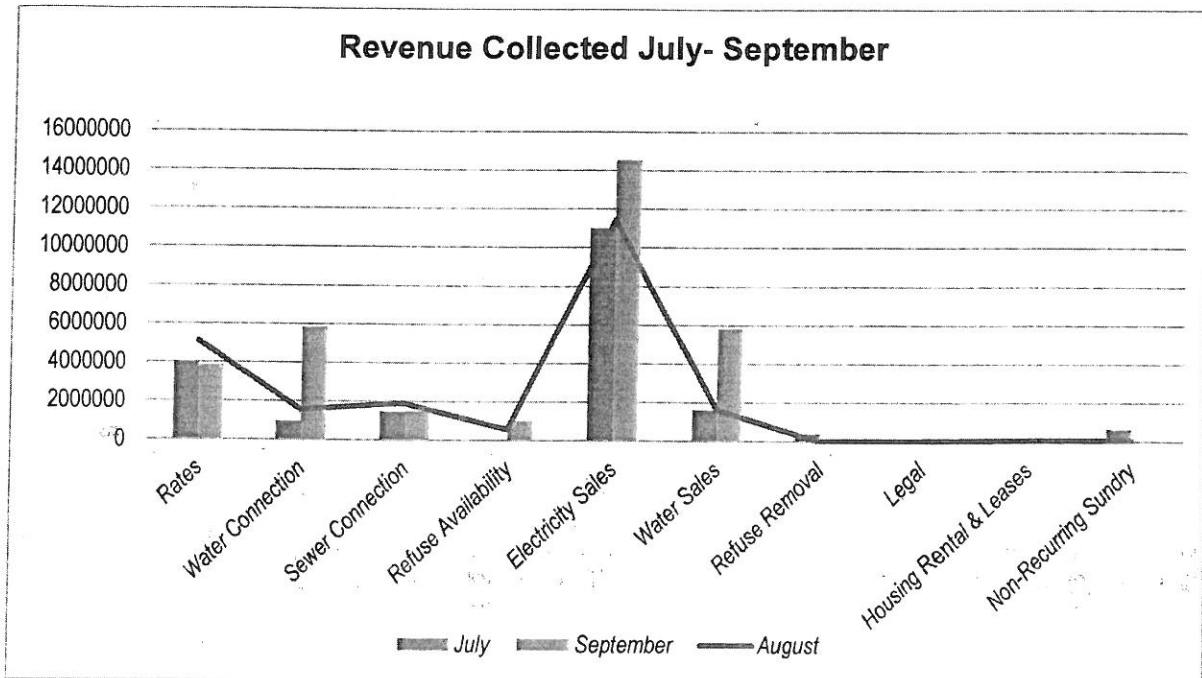
Capital expenditure

Year-to-date expenditure on capital project amounts to **2% or R2 894 million** of the capital budget of **R170 043 million**.

Capital Expenditure of **R170 043 million** disclosed in above table reflects expenditure of grants transferred directly to municipal bank account and internally funded projects.

It is indicative that R125 592 million is irrecoverable, and further investigation should take place as means of recovering or writing off these debts. Currently Age Analysis report shows a balance R327 175 million.

2.2 Income by Source – July 2016



2.2.1 Billing vs Receipts Report – September 2016

CATEGORY	RECEIPTS	BILLING	Percentage
RATES	R 17,841,732.78	R 3,602,715.78	495.23
WATER CONN	R 1,595,089.03	R 1,153,868.11	138.24
REFUSE REMOV	R 220,420.09	R 644,615.50	34.19
SEWER CONN	R 4,442,595.21	R 1,445,620.87	307.31
WATER	R 1,288,719.43	R 3,597,744.59	35.82
ELECTRICITY	R 9,891,067.03	R 13,778,530.13	71.79
S LEVY	0.00	0.00	
SITE SALES	123.12	0.00	
RENT HOUSING	R 35,921.19	R 17,084.79	210.25
L FEES	R 27,547.83	-	
LEASES	R 48,952.33	R 79,238.38	61.78
SUNDRY DEBTO	R 62,709.27	0.00	
M AID	500.00	0.00	
INTEREST	3,318,471.67	1,815,950.54	182.74
VAT	2,773,421.69	2,897,941.11	95.70
	R 41,547,270.67	R 29,033,309.80	

INDIGENT REPORT FOR SEPTEMBER 2016						
NUMBER OF APPLICATION FORMS TO BE AUDITED	APPROVED	PENDING - Documents to be attached	LOCKED	DUPLICATES	AUDITED	Not Approved
2548	527	604	284	101	335	5

2.3.2 Credit Control Statistics Report

DISCONNECTION, RESTRICTION & RECONNECTION STATISTICS	
SEPTEMBER 2016	
ELECTRICITY	
Warning notice issued: Business	
Warning notice issued: Domestic	338
Warning notice issued: School	
Disconnected: Business	12
Disconnected: Domestic	
Reconnection: Business	9
Reconnection: Domestic	
Not Reconnected: Business	
Not Reconnected: Domestic	
Arrangements	21
WATER	
Warning notice issued: Domestic	
Restrictions	50
Reconnections	4
Arrangements	

Section 3 – Creditors' Analysis

Total Payments made September amounts to **R28 730 million** amongst those payment **R6 372** relates to a payment made to Eskom and **R11 656** made to salaries

The outstanding creditors has increased by **R43 005 million** from the previous month to **R117 041 million** in the current month. Although the municipality has entered into payment arrangements with all major creditors, it is imperative that austerity measures be strictly adhered to, in order not to incur further debt.

Section 4 – Allocations for Operating Grant Receipts and Expenditure

5.1 Summary of Grants Received

GRANT	BUDGET	AMOUNT RECEIVED	EXPENDITURE	EXPENDITURE TO DATE
MIG	R36 288 000	R0.00	R1 100 411	R3 441 429
FMG	R1 810 000	R1 810 000	R13 361	R42 406
EPWP	R1 000 000	R250 000	R0.00	R48 000
DWA	R5 000 000	R538 118	R0.00	R0.00
TOTAL	R44 098 000	R2 598 118	R1 113 772	R3 531 835

Capital Grant – MIG Expenditure in August 2016

- Budget Maintenance: Upgrade of surfaced Road – Sani Street – R494 093
- Mobile Toilets – R51 500
- Construction of High Mast Lights in Mayfield – R478 080

Operating Grants

- FMG – R13 361
- EPWP- R24 000
- DWA- There is no expenditure in the month of September
- MIG Admin – R129 238

Section 5 – Expenditure on Councillor Allowances and Employee Benefits

ITEM DESCRIPTION	ITEM NUMBER	BUDGET	ACTUAL 03	TOTAL MOVEMENT	% SPENT	TARGET
SALARIES	6000	102,579,303	8,433,725	25,407,097	24.77%	23.08%
OVERTIME	6010	1,127,585	550,580	2,638,302	233.98%	25.00%
ALLOWANCE: HOUSING	6020	1,726,785	159,893	481,821	27.90%	25.00%
ALLOWANCE: TELEPHONE	6025	284,730	13,337	74,361	26.12%	25.00%
ALLOWANCE: TRANSPORT	6030	3,764,370	302,721	908,162	24.13%	25.00%
ALLOWANCE: INCONVENIENCE(STAND BY)	6050	1,365,857	400	1,200	0.09%	25.00%
PENSION/PROVIDENT FUND	6100	18,070,868	1,392,002	4,188,930	23.18%	25.00%
MEDICAL AID FUND	6110	7,248,268	777,728	2,115,019	29.18%	25.00%
GROUP LIFE ASSURANCE	6120	988,085	67,899	204,071	20.65%	25.00%
		137,155,851	11,698,285	36,018,963	26.26%	24.79%

COUNCILLOR ALLOWANCES PAID						
ITEM DESCRIPTION	ITEM NUMBER	BUDGET	ACTUAL 03	TOTAL MOVEMENT	% SPENT	TARGET
COUNCILLORS ALLOWANCE	6385001	7,340,676	891,354	1,932,143	26.32%	25.00%
CNL TELEPHONE ALLOWANCE	6385006	3,370,487	47,473	137,464	4.08%	25.00%
CNL TRAVELLING ALLOWANCE	6385007	885,977	172,689	495,247	55.90%	25.00%
		11,597,140	1,111,516	2,564,854	22.12%	25.00%



QUALITY CERTIFICATE

I, _____, Municipal Manager of Makana Municipality hereby
certify that

- ☐ The monthly budget statement
- ☐ The quarterly report on the implementation of the budget and financial state of affairs of the municipality
- ☐ The mid-year budget and performance assessment

for the month of September 2016 has been prepared in accordance with the Municipal Finance Management Act and regulations made under that Act.

Print Name: _____

Municipal Manager of Makana Municipality (EC104)

Signature: _____

Date: _____



BUDGET & TREASURY DEPARTMENT: CFO's MONTHLY REPORTS:

SUPPLY CHAIN MANAGEMENT

PROCURED GOODS REPORT FOR THE MONTH OF SEPTEMBER 2016

**Report to: Budget & Steering Committee
Mayco
Council**

File No.: 9/1/2/3) BSC 5.2

Date : 12 OCTOBER 2016

PURPOSE

To inform the Council to note all the goods and services that have been procured for the month of September 2016.

LEGAL REQUIREMENTS

Municipal Finance Management Act no 56 of 2003
Approved Supply Chain Management Policy
Supply Chain Management Regulations

STATUTORY AUTHORITY

Chapter 11 of the MFMA No. 56 of 2003

BACKGROUND AND REASONING

Request for Quotations were called for from prospective service providers for procurement less than R30 000-00 and for procurement above R30 000-00 were advertised on the notice board and website and they met the municipal needs and specifications and therefore were considered and approved.

A credible supplier database is in place and procurement is done with suppliers registered on Makana Database.

To ensure Local Economic Development, quotations are first requested from Makana Service providers. However, the municipality finds it difficult to award to Makana Suppliers due to the following:

- Some Makana Suppliers charge huge mark up as compared to other suppliers.
- Some Makana Suppliers also include huge delivery costs
- Some Makana Suppliers refuse to do business with the municipality as the municipality is unable to pay them within 30 days upon receipt of valid invoice

LABOUR IMPLICATIONS

None of the bids awarded will entail additional labour costs.

FINANCIAL IMPLICATIONS

Funding for the goods and services procured has been budgeted for in 2016/17 financial year. Awards were made as follows

Local Services Providers	External Service Providers	Total Awards
R38 664.29	R238 068.60	R276 732.47

PROCUREMENT AS PER SCM THRESHOLDS

Below R30, 000	Above R30, 000	Total Awards
R177 723.47	R99 009	R276 732.47

OTHER PARTIES CONSULTED

There were no other parties consulted.

ANNEXURES

Annexures - Procured goods / Quotations Register.

RESOLVED TO RECOMMEND

1. That Procured goods and services report for the month of September 2016 be noted by the Council.

BUDGET & TREASURY DEPARTMENT: FLEET MANAGEMENT FUEL USAGE REPORT FOR SEPTEMBER 2016.

PURPOSE

To inform the end Council to note the fuel expenditure and fleet usage for the month September 2016.

LEGAL REQUIREMENTS

Municipal Finance Management Act no 56 of 2003

STATUTORY REQUIREMENT

Supply Chain Management Policy & Regulations

BACKGROUND AND REASONING

The municipality is owning numerous fleet (vehicles and trucks) which use fuel and oil on a monthly basis. The municipality also incurs major expenditure as a result of repairs and maintenance on the municipal fleet.

Fuel: The municipality's vehicles are refueled at main stores every Monday upon submission of request for fuel memo signed by supervisor / Manager. Due to non-payment of creditors within 30 days upon receipt of valid invoice, the municipality purchases fuel from PE fuel upon making an advance payment almost on a weekly basis.

Repairs & Maintenance: The municipality's vehicles are repaired and maintained internally at municipal workshop. Repairs and maintenance items are items are purchased through annual tenders.

LABOUR IMPLICATIONS

None

FINANCIAL IMPLICATIONS

Funding for the fuel and oil has been budgeted for in the 2016/17 financial year.

BUDGET & TREASURY DEPARTMENT: ASSETS ACQUISITION AND INVENTORY MANAGEMENT FOR SEPTEMBER 2016.

PURPOSE

To inform the Council to note the Assets acquired, capital projects completed and Inventory Management reports for the month of September 2016.

LEGAL REQUIREMENTS

Municipal Finance Management Act no 56 of 2003, GRAP 17, GRAP 12.

STATUTORY REQUIREMENT

Chapter 08, Section 63 (1) (a) of the Municipal Finance Management Act 56 of 2003.

BACKGROUND AND REASONING

The accounting officer must for all the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as September 2016.

INVENTORY

STOCK ITEMS: The municipality has embarked on a system for inventory management. Approved Inventory policy is currently implemented. Monthly stock takes were done and monthly reconciliation for the month of September 2016 have been prepared wherein the balance brought forward from the previous month, issues and purchases for the current month as well as the closing balance is reflected.

The municipality is currently monitoring inventory re-order levels to ensure that excessive stock is not purchased at the same time ensuring that the municipality does not run out of stock.

PROTECTIVE CLOTHING: Previously, the municipality issued staff protective clothing as and when requested by the employee, as a result, the municipality had to keep bulk protective clothing at stores to ensure that employees receive uniform as and when required. To ensure cost savings, the following procedures were developed to ensure that the municipality does not keep excessive protective clothing

- Uniform be issued twice a year to the municipal employees
- Two (2) overalls and 1 pair of safety boots be issued per employee
- Uniform be issued beginning July and beginning January each financial year
- Supervisors to submit complete request for goods with clear specification attached (list of employees with correct sizes, quality and design) to SCM unit timeously to ensure that uniform is distributed immediately as above

BENEFITS

- No need for the municipality to carry high volume of stock at stores
- Uniform will be ordered twice a year only
- SMME development will be taken into account as there won't be a need for awarding annual tender for protective clothing. RFQ will be issued for SMME's to benefit rather than awarding one SMME for the full financial year
- Each directorate will be able to manage its uniform / protective clothing budget, as uniform will be procured based on request received per directorate
- More controls on uniform will be implemented, as an employee will properly protect his / her own uniform

ASSETS

The municipality has a fully GRAP compliant Asset Management System in place to record all municipal assets. Depreciation is calculated on a monthly basis and fully GRAP compliant asset register is produced.

There were no new assets or completed capital projects during the month of September

LABOUR IMPLICATIONS

None

FINANCIAL IMPLICATIONS

None

OTHER PARTIES CONSULTED

None

ANNEXURES

Annexure- Inventory reconciliations

RESOLVED TO RECOMMEND

1. That the inventory management reports for the month of September 2016 be noted the Council.
2. That Protective Clothing proposal be approved by the council

BUDGET & TREASURY DEPARTMENT: DEVIATIONS REPORT FOR SEPTEMBER

PURPOSE

To inform the Council to note the deviations to the SCM Policy for the month of September 2016.

LEGAL REQUIREMENTS

Municipal Finance Management Act no 56 of 2003

STATUTORY REQUIREMENT

Municipal Supply Chain Management Regulations.

BACKGROUND AND REASONING

The Accounting officer may allow deviations from, and ratifications of minor breaches of, procurement process. These deviations can only be in the following circumstances.

- (i) in an emergency
- (ii) If such goods or services are produced or available from a single provider only.
- (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile.
- (iv) Acquisition of animals for zoos; or
- (v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes.

The reasons for these deviations must be recorded and reported in the next council meeting and included as a note to the annual financial statements.

LABOUR IMPLICATIONS

None

FINANCIAL IMPLICATIONS

None

OTHER PARTIES CONSULTED

None

ANNEXURES

Annexure- No deviation made in the month of September 2016

RESOLVED TO RECOMMEND

Deviations for the month of September 2016 be noted by the Council.