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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

MAY 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. **In-Year Report - Monthly Budget Statement**

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

* + 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 April 2016, the collection rate is 79.62%.
* 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

**Section 2 – IN-YEAR REPORTS 2015/2016**

**RECOMMENDATION:**

(a) That FAME notes the monthly budget statement and supporting documentation for MAY 2016.

**Section 3 – Executive Summary**

**3.1 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.

* 1. **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) | 427 637 | 440 053 | 344 576 | 78% |
| Operating Expenditure (accrued/actual mix) | 427 637 | 437 920 | 290 254 | 66% |
| Capital Expenditure | 191 857 | 62 942 | 18 668 | 30% |

**Revenue by Source**

Year-to-date Operating Revenue amounts to **78% or R344 576 million** of the adjusted operating budget of **R440, 053 million**.

**Operating expenditure by type**

Year-to-date expenditure amounts to **66% or** **R290 254 million** ofthe adjusted operating budget of **R437, 920** **million.**

**Capital expenditure**

Year-to-date expenditure on capital project amounts to **30% or** **R18 668 million** ofthe capital budget of **R62, 942** **million**.

**Section 4 – In-year budget statement tables**

***4.1 Monthly budget statements***

**4.1.1 Table C1: s71 Monthly Budget Statement Summary**



The table above indicates that total municipality’s own revenue recognised, consisting of Property Rates at R53,554 million, Service Charges at R179,865 million, interest from outstanding debtors and investments at R15,951 million and other Own Revenue at R11,726 million. The total internally generated revenue amounts to R261 096 million or 80%, while revenue from transfers amounts to R83 479 million or 20% of the total of R344 576 million to date.

**4.1.2 Table C2: Monthly Budget Statement – Financial Performance (standard classification)**



This table reflects the operating budget (Financial Performance) in the standard classifications which are the Government Finance Statistics Functions and Sub-functions. These are used by National Treasury to assist the compilation of national and international accounts for comparison purposes, regardless of the unique organisational structures used by the different institutions.

The main functions are Governance and administration; Community and public safety; Economic and environmental services; and Trading services.

**4.1.3 Table C3: Monthly Budget Statement – Financial Performance (revenue and expenditure by municipal vote)**

The operating expenditure budget is approved by Council on the municipal vote level.

The municipal votes reflect the organisational structure of the municipality which is made up of the following directorates: Technical and Infrastructure; Corporate Services; Financial Services; Community and Social Services; Executive Mayor; Municipal Manager; Local Economic Development; Housing; Electricity; Water.



**4.1.4 Table C4: Monthly Budget Statement – Financial Performance (revenue and expenditure)**



The year-to-date Operating Revenue reflects an achievement of **78% or R344,576 million** of the adjusted annual budget of R440, 053 million, and Operating Expenditure is **66%** or **R290,254 million** of the adjusted annual budget of R437, 920 million.

**Operating Revenue**

Major contributors of Operating Revenue to date amounting to R344, 576 million are:

* Service Charges-Electricity at R116, 418 million or 34%
* Operational Transfers recognised at R83, 479 million or 24%.
* Property Rates at R53, 554 million or 16%.
* Service Charges-Water R37, 730 million or 11%

**Operating Expenditure**

Major contributors of Operating Expenditure to date amounting to R290, 254 million are:

* Employee-related costs at R131, 197 million or 45%
* Bulk purchases at R67, 217 million or 23%.
* Remuneration of councillors at R8, 610 million or 3%.
* Maintenance expenditure at R8, 322 million or 3%

**4.1.5 Table C5: Monthly Budget Statement - Capital Expenditure (municipal vote, standard classification and funding**

**Capital Budget Funding Sources**



Capital Expenditure disclosed in Table C5 reflects expenditure of grants transferred directly to municipal bank account and internally funded projects. The year- to date expenditure amount to R18, 668 million.

**4.1.6 Table C6: Monthly Budget Statement - Financial Position**



Table C6 is consistent with international standards of good financial management practice, and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet). The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.

**4.1.7 Table C7: Monthly Budget Statement - Cash Flow**



The cash flow report shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget with the expected 85% collection rate.

**PART 2 – SUPPORTING DOCUMENTATION**

**Section 5 – Debtors' Analysis**

The age analysis for debtors only includes those amounts which are currently or past due. May Age Analysis amounts to R341, 853 million.

**5.1 REVCO Performance Report**

|  |
| --- |
| **Average Payment Value Per Month** |
| **Month** | **Active Accounts Balance** | **Actual Collection** | **Number of Accounts Paid** | **% Yield Achieved on Collection** | **Average Payment Value** |
| **July** |  R134 846 307.00 | R6 464 294.00 | 7 162 | 4.79% | R903.00 |
| **August** | R114 034 939.00 | R5 165 886.00 | 7 051 | 4.53% | R733.00 |
| **September** | R106 588 019.00 | R4 569 928.00 | 7 195 | 4.29% | R635.00 |
| **October** | R106 323 064.00 | R6 523 858.00 | 7 354 | 6.4% | R887.00 |
| **November** | R109 363 386.00 | R7 708 631.00 | 7 386 | 7.05% | R1 044.00 |
| **December** | R138 8110758.00 | R7 988 056.00 | 7 280 | 5.75% | R1 097 |
| **January** | R128 915320.00 | R5 012 476.00 | 2 645  | 3.89% | R1 895 |
| **February**  | R121 034 958.00 | R12 400 532.00 | 1 773 | 10.25% | R 6 994 |
| **March**  | R126 602 195.00 | R7 112 486.00  | 2 409  | 5.62% | R2 952 |
| **April** | R113 464 720.00 | R7 618 635.00 | 2 151 | 6.71% | R3 542 |
| **May** | R115 241 511.00 | R6 372 982.00 | 2 546 | 5.53% | R2 503 |





**5.2 Analysis of Revenue Collected**

**5.3 Billing vs Receipts Report – MAY 2016**

|  |  |  |  |
| --- | --- | --- | --- |
| **Category** |  **Receipts** |  **Billing**  | **Percentage** |
| RATES |  R -3 007 267.00 |  R 3 457 311.00  | -86.98 |
| WATER CONN |  R -668 645.00  |  R 1 909 691.00  | -35.01 |
| REFUSE REMOVAL |  R -541 175.00 |  R 1 051 585.00  | -48.90 |
| SEWER CONN |  R -853 406.00  |  R 1 687 311.00  | -50.58 |
| WATER |  R -1 476 608.00  |  R 2 806 840.00  | -52.61 |
| ELECTRICITY |  R -8 263 823.00  |  R 10 776 130.00 | -76.69 |
| L FEES |  R -11 789.00  |   |  -100 |
| RENT HOUSING/LEASES |  R -48 210.00 |  R 106 592.00  | -45.23 |
| SUNDRY DEBTORS |  R -56 317.00  |   |  -100.00 |
| **Overall Collection %** |  **R -14 900 741.00**  |  **R 21 795 461.00** | **-68.37** |

**5.4 Credit Control Stats Report**





**Section 6 – Creditors' Analysis**

**6.1 Summary of all creditor’s paid at 31 MAY 2016**

|  |  |
| --- | --- |
| **DESCRIPTION** | **TOTAL PAID IN MAY** |
| Total payments | R12 390 034.66 |

**Top 10 Payments made in MAY 2016**

|  |  |
| --- | --- |
| **DESCRIPTION** | **AMOUNT PAID** |
| ESKOM | R8 197 592.77 |
| SARS | R1 456 064.59 |
| Revenue Consulting | R648 658.68 |
| North & Robertson | R400 000.00 |
| PE Fuel Distributors | R187 010.95 |
| Nettletons | R158 877.88 |
| Transgear Business Trust | R90 134.00 |
| CAB Holdings | R77 550.00 |
| Elektro Vroomen | R51 129.01 |
| Maseko Tilana | R50 649.14 |
| **TOTAL** | **R11 317 667.02** |

**6.2 Summary of payables at 31 MAY 2016**

**Creditors Age analysis**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **TOTAL**  | **CURRENT** | **30 DAYS** | **60 DAYS** | **90 DAYS** | **120 DAYS** |
| R108 591 926.31 | R8 153 496.56 | R15 139 369.99 | R2 775 802.95 | R5 058 317.66 | R77 464 939.15 |

**Top 10 Creditors**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **COMPANY NAME** | **CURRENT** | **30 DAYS** | **60 DAYS** | **90 DAYS** | **120 DAYS** |
| ESKOM | R7 089 651.25 | R13 889 185.98 |  |  | R45 069 300.28 |
| Auditor General |  | R303 959.32 | R484 928.74 | R85 492.34 | R15 508 609.43 |
| Department of Water Affairs |  |  |  |  | R6 453 415.91 |
| Amatola Water  | R372 240.48 |  | R1 675 352.48 | R3 980 904.32 | R183 129.26 |
| B.R.O Civils |  |  |  |  | R4 073 353.15 |
| Royal Haskoning |  |  |  |  | R1 082 626.13 |
| Artivolt South Africa |  |  |  |  | R1 058 179.77 |
| Sains Agencies |  | R97 769.14 |  | R7 933.83 | R647 867.70 |
| Ayabona Construction |  |  |  | R630 000.00 |  |
| National Arts Festival |  |  |  |  | R500 000.00 |
| **TOTAL** | **R7 461 891.73** | **R14 290 914.44** | **R2 160 281.22** | **R4 704 330.49** | **R74 576 481.63** |

The outstanding creditors have increased by **R18 210 483.86** from the previous month to **R108 591 926.31** 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.

A list of creditors the municipality made arrangements with, is as follows:





**Section 7 – Allocations for Operating Grant Receipts and Expenditure**

**7.1 Summary of Grants Received**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **GRANT** | **BUDGET** | **AMOUNT RECEIVED TO DATE** | **EXPENDITURE IN APRIL** | **EXPENDITURE****YEAR-TO-DATE** |
| MIG | R23 270 948.00 | R10 604 494.00 | R3 508 209.00 | R10 772 228.00 |
| MSIG | R930 000.00 | R930 000.00 | R0.00 | R582 708.00 |
| FMG | R1 675 000.00 | R1 675 000.00 | R629 778.00 | R1 466 488.00 |
| EPWP | R1 002 000.00 | R1 002 000.00 | R24 000.00 | R1 116 802.00 |
| **TOTAL** | **R26 877 948.00** | **R14 211 494.00** | **R4 161 987.00** | **R13 938 226.00** |

**Section 8 – Expenditure on Councillor Allowances and Employee Benefits**



