****

MID YEAR BUDGET AND PERFORMANCE ASSESSMENT

31 DECEMBER 2015

**TABLE OF CONTENTS**

1. LEGISLATIVE REQUIREMENTS.……………………………………………………………………………… …3
2. EXECUTIVE SUMMARY.………………………………………………………………………………………… 3
3. BUDGET PERFORMANCE ANALYSIS……………………………..…………………………………………..4

3.1. Operational Expenditure and Income Performance………………….. …….………….…………….. 5

3.2. Capital Budget…………………………………………………………………………………………….. 7

4. FINANCIAL PERFORMANCE ANALYSIS...…………………………………………………………………….. 8

4.1. Cash Management ………………………………………………………………….......................... 10

4.2. Outstanding Debtors…………………………………………………………………………………… 10

4.3. Payment of Creditors …………………………………………………………………………………..11

5. ANNEXURES

Annexure A – In-Year Reports at 31 December 2015……………………………………….. ............................18

* Tables C1-C7
* Supporting Tables SC1-SC8

1. **LEGISLATIVE REQUIREMENTS**

Sec 72 (1) (a) of the Municipal Finance Management Act (MFMA) No.56 of 2003 states:

The accounting officer of the municipality must by 25 January of each year

1. Assess the performance of the municipality during the first half of the financial year taking into account– the monthly statements referred to in section 71 for the first half of the year.
2. Submit the report on such assessments to the Mayor of the municipality; National Treasury and relevant Provincial Treasury
3. The accounting officer must, as part of the review, make recommendation as to whether an adjustment budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary

Section 54 (1) of the Municipal Finance Management Act requires the Mayor to consider and then submit the mid-year report to Council by 31 January each year.

1. **EXECUTIVE SUMMARY**

The Municipal Manager as the accounting officer of the municipality is submitting this report as required by Section 72 of the MFMA.

The mid-year report and supporting tables of Makana Municipality are prepared in accordance with the Municipal Budget and Reporting Regulations and MFMA Circular 13

The mid-year report is a critical stage in the in-year reporting cycle of a municipality. In terms of Section 72 (3) of the Municipal Finance Management Act, the Accounting Officer needs to make recommendations as to whether the SDBIP and both capital and operating budget need to be adjusted.

The municipality will have to revise the budget during February 2015 due to material changes in revenue and expenditure.

**2.1 Highlights**

Makana Municipality has been faced with numerous financial problems which impact, amongst others, on its ability to meet its financial commitments and the provision of basic services until Eastern Cape Provincial Executive instituted an intervention in terms of section 139(1) (b) of the Constitution in respect of the Makana Local Municipality.

With the assistance of the Eastern Cape Province the municipality was able to move in a positive direction.

During the intervention, a decision was taken that the municipality would prepare Annual Financial Statements internally. Some of the finance staff attended GRAP training to assist in producing GRAP compliant AFS.

Additionally, BTO management met with Auditor General (AG) to discuss the approach and plan of the AFS. Part of the agreement was the repayment of the outstanding debt. Both parties agreed to monthly repayments, which the municipality has successfully honoured.

The following were identified as priority activities for the preparation of 2014/15 AFS:

* Prior-year restatement approach
* Technical review of AFS, mapping and disclosures
* Supporting Documents / Work Plan (Work Plan and Working Paper Layout)
* Reconciliations - Assessment and recommendations on how to improve them
* Completeness of Debtors and Creditors
* Landfill sites calculation and information to actuaries
* Income received in advance (Prepaid income)
* Water and Electricity Losses calculations
* Compliance checklist
* Application of GRAP 17 ( Property, Plant and Equipment)

The municipality managed to get and qualified audit opinion for 2014/15 audit.

**2.2 The Actual 2015/16 Mid-Year Results Against IDP and Targets in SDBIP**

The mid-year financial assessment reveal financial and sustainability challenges. The continued unrealistic budgeting, where unachievable revenue and expenditure budgets have been set and not achieved, weak expenditure controls and poor management of assets has had a negative impact on the current financial status of the municipality.

The cornerstone of financial recovery plan that were considered during budget preparation include the following:

1) Revenue Enhancement Strategy

2) Cost Containment

3) Fraud and Risk Management Plan

The setting of cost reflective tariffs, unrealistic revenue collection levels, with general expenses and contracted services that appear to be excessive still needs to be addressed. These matters should be adequately addressed in the 2015/16 adjustment budget and 2016/17 budget preparation process.

1. **BUDGET PERFORMANCE ANALYSIS**

**3.1 Budget performance analysis (Operational Revenue and Expenditure)**

**3.1.1** **Revenue**



The municipality’s total revenue for the first six months was R220, 058 million, which is 51% of the annual budget of R427, 637 million.

Under other revenue there is an infrastructure levy included of R4, 959 million. The municipality is unable to implement the levy due to public participation processes not being followed. This will have an impact in the revenue projections.

**3.2 Expenditure**



The municipality’s total operating expenditure for the first six months was R151, 486 million, which is 35% of the annual budget of R427, 637 million.

The low spending level was mainly caused by the challenges in cash flow management:

* As at December the collection rate was 71% compared to the budgeted 85%. This resulted in certain expenditure being put on hold to compensate for the funds used in the payment of the accruals.
* Currently total creditors amount to R78, 916 million.

Employee-related costs shows an overspending of R12, 928 as per budget projection, which is 21% variance. This is due to the misallocation of contracted employee salaries and overtime. Budgeted vacancies have been filled and this has resulted in departments resorting to use of overtime to close the vacancy gap.

Overtime costs show high spending. The expenditure cost for overtime exceed the budgeted costs by R1, 143 million. Savings will be identified from the Employee-related costs to cover the over- expenditure.

Councillor remuneration amounts to R4, 241 million which is 44% of the budget..

The council look a decision to prioritise the filling of funded vacancies. Overtime costs are therefore anticipated to drop in the next 6 months.

The vacant positions for which budget is available will be filled in the second half of the financial year. Advertisement of critical posts and interviews have commenced and should reduce the negative impact on service delivery.

Maintenance Budget and Internal funded capital projects budget must be reduced as the municipality needs to accommodate the over expenditure of the following line items:

* Legal Fees: R13 544 236.56
* Contracted Services: R4 500 000
* Interest Paid: R783 870

The adjustment budget will address over- or under-spending within votes, as well as changes to government transfers

Implementation of cost-containment measures has become one of the effective tools. ‘Other Expenditure’ of R35, 849 is low compared to the last financial year’s report.

**3.3** **CAPITAL BUDGET**



Capital Projects of R191, 857 were funded internally and externally .The municipality’s total capital expenditure for the first six months was R49, 090 million, which is 26 % of the annual budget.

Reasons as to why the actual spending is below the budgeted expenditure can be attributed as follows:

* Capital Projects of R12, 082 which were funded internally are still in the procurement stage
* Adjusting of Gazette for MIG funding. Allocation for MIG project is transferred to the Sarah Baartman District Municipality.
* Poor planning; and
* In-kind grants that are not transferred directly to municipal bank account e.g. INEP, ECDC,DW’s and RBIG

The low spending suggests that there is a possibility of a conditional grants roll-over application. Municipal departments are encouraged to collate supporting documents and complete reconciliations so that the application reflects accurate information.

Spending on grants is detailed in the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **GRANT** | **BUDGET** | **AMOUNT RECEIVED TO DATE** | **EXPENDITURE IN DECEMBER** | **EXPENDITURE**  **YEAR-TO-DATE** |
| MIG | R23 270 948.00 | R0.00 | R111 742.03 | R653 032.84 |
| MSIG | R930 000.00 | R930 000.00 | R9 581.00 | R577 808.00 |
| FMG | R1 675 000.00 | R1 675 000.00 | R21 331.00 | R611 894.00 |
| EPWP | R1 002 000.00 | R702 000.00 | R329 892.00 | R759 117.00 |
| **TOTAL** | **R26 877 948.00** | **R3 307 000.00** | **R472 546.03** | **R2 601 851.84** |

1. **FINANCIAL PERFORMANCE ANALYSIS**

Based on the findings identified in the Plan, the municipality was advised to prioritise the following:

* Implementation of revenue enhancement initiatives
* Cost containment measures
* Development of an integrated assets management plan
* Correction of the opening balances in preparation for the 2014/15 annual financial statements
* Address staff competencies to meet MFMA minimum competency requirements
* Reduce irregular expenditure and fruitless and wasteful expenditure
* Improve financial data integrity
* Improve in-year assessment and reporting to facilitate timely decision making.

Strides have been made to respond to the findings to ensure good governance in financial management and adequate resources are available to provide service delivery to the community.

A Revenue Enhancement Plan was developed by the municipality which was funded by Co-operative and Traditional Affairs (CoGTA). A service provider was appointed by the municipality to implement the Plan and attend to data cleansing of Debtors. Based on the appointment, the municipal collection rate for 15/16 financial year is forecasted at 85%. As at 31 December 2015, the collection rate is 71%.

**4.1. Cash Management**

* Healthy cash flow continues to be a challenge at the municipality as long-outstanding debts are demanded to be paid irrespective of availability of funds.
* Collection rate was projected at 85%, however it is averaging at 71%, having a negative impact on the availability of cash to repay such creditors. It is anticipated that the collection rate will increase as a service provider and field workers for indigent registration have been appointed to assist in debt collection and cleansing.
* The municipality continues to experience challenges with its system particularly relating to accuracy and reliability of information produced as a result of manual work done outside the system over the years. A service provider was appointed for a period of 3 years to assist in these affected areas.
  1. **Outstanding Debtors**
* As at 31 December 2015, total debtors amounted to R342, 486 million with the largest debtors being from 151-180 days at R171, 521 million (50%), of which its collection is doubtful.

* The highest contributor of outstanding debtors continues to be the rapid increase in actual indigent households without updating the municipality’s records. Despite the efforts made to educate and inform the Makana community, the consumers continue to not come forward to apply for indigent subsidy so that they can be billed as such.
* Once this kind of information, through the assistance of councillors and ward committees and the community at large, is updated it will give the municipality tangible motivation to increase its equitable share from National Treasury so that the municipality is able to cover revenue forgone from indigent households.
* The municipality has recently appointed a service provider to assist in data cleaning and debt collection through the implementation of the Revenue Enhancement Strategy. Collection rate is thus anticipated to increase and debtors book to decrease.
* The rapid increase in consumer debt due to non-payment by ratepayers and consumers and high level of indigence in the municipal area increases the likelihood of these debtor amounts not being collected despite the implementation of the Credit Control Policy.

**4.3. Payment of Creditors**

* Total outstanding creditors to date amounts to R78, 433 million, this amount includes previous years’ long outstanding debts to Eskom, Department of Water Affairs and Auditor General.
* The council is advised to consider condoning interest payment as it is wasteful expenditure.
* The municipality has entered into payment arrangement with major creditors. And the austerity measures are adhered to

**5. ADJUSTMENT 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.”

Accordingly a final report on adjustment budget will be submitted for consideration by Council before 28 February 2015.

1. **ANNUAL REPORT**

The Annual Report of the 2014/2015 financial year will be covered in a separate report. As prescribed in section 72 (1((a)(iii) of the MFMA the Accounting Officer must assess the performance of the municipality in the first 6 months taking into account the past year’s Annual Report, and progress on resolving the problems identified in the Annual Report.

**ANNEXURE A**

**IN-YEAR BUDGET STATEMENT TABLE**















**ANNEXURE B**

**SUPPORTING TABLES**











