



UMKHANDA

**UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY**

2016/17

MID YEAR REVIEW (S72)

TABLE OF CONTENTS

1. PURPOSE
2. STRATEGIC OBJECTIVE
3. WARDS AFFECTED
4. IDP LINKAGE
5. MAYOR'S REPORT
6. EXECUTIVE SUMMARY
7. SUMMARY OF FINANCIAL PERFORMANCE
8. SUMMARY OF CAPITAL PROJECT IMPLEMENTATION
9. ANALYSIS OF OUTSTANDING DEBTORS
10. ANALYSIS OF CASH FLOWS
11. ANALYSIS OF CASH & INVESTMENTS
12. ANALYSIS OF FINANCIAL POSITION
12. ANALYSIS OF GRANTS RECEIVED
13. MUNICIPAL MANAGERS CERTIFICATE

PURPOSE

To report to Council on the mid-year review of the financial and performance results for the first quarter of the 2016/17 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

In the first half of the year UThukela District Municipality has successfully fulfilled various events such as the SALGA games which was one of the major community events budgeted for in the second quarter. The improvement in our audit opinion for the 2015/2016 financial year must be highlighted. It must be said that these events were well managed within the approved budget.

Looking at the various votes the municipality has managed its expenditure well in the first half of the year, costs have remained well contained. However senior managers must keep an eye on priority expenditure items such as repairs and mantaince.

As we prepare for the adjustments budget we emphasise that adjustments should only be done to votes that impact directly on service delivery or directly onto communities.

It must be noted that an amount of R232 million has been received from the budgeted total of R306 million of the equitable share and an amount of R37.5 million has been received in respect of the MIG (municipal infrastructure grant) as well as R12.5 million in respect of MWIG (Municipal water 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

UTHUKELA DISTRICT MUNICIPALITY | 2017

ANALYSIS OF OPERATING REVENUE (JULY – DECEMBER 2016) EXCLUDING CAPITAL TRANSFERS:

Description	Budget Year 2016/17					
	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands						
Revenue By Source						
Property rates						
Property rates - penalties & collection charges						
Service charges - electricity revenue	159,378	100,067	79,689	20,378	26%	159,378
Service charges - water revenue	17,551	8,459	8,775	(316)	-4%	17,551
Service charges - sanitation revenue						
Rental of facilities and equipment						
Interest earned - external investments	10,671	3,381	5,335	(1,954)	-37%	10,671
Interest earned - outstanding debtors	28,321	20,827	14,161	6,666	47%	28,321
Transfers recognised - operational	338,199	251,835	169,100	82,735	49%	338,199
Other revenue	1,914	1,698	957	741	77%	1,914
Gains on disposal of PPE						
Total Revenue (excluding capital transfers and contributions)	556,033	386,267	278,017	108,250	39%	556,033

Budgeted
R 278 017

Actual Outcomes
R 386,267

% Variance
39

Operating revenue recognised for the period July 2016 to December 2016 amounts to R278 million resulting in a 39% positive variance from the R278 million which was anticipated.

The 39 % material variance although positive 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 49% positive variance on transfers recognised, which is the direct impact of the 1st and 2nd tranche of the equitable share of R249 million.
- ii. Other revenue has been adjusted by R 1.6 million as a result income excessive generated from insurance claims (R426 Thousand), trade affluent income (R772 thousand) and clearance certificates (R 245 Thousand)

WATER & SANITATION SALES:

Water and sanitation sales income recognised combined is 4 % below what was originally anticipated. This is due to fluctuations in consumer accounts, as well as unanticipated new

connections. This variance will have an immaterial impact on the actual financial results at year end.

INTEREST FROM OUTSTANDING DEBTORS:

This line item has yielded a negative variance 47% which has been consistently maintained from the first quarter, although we have billed more interest than we had originally anticipated this shows a deterioration in the collection rate and thus a negative impact of cash flows.

INTEREST FROM INVESTMENTS:

A total of R3.3 million has been recognised as interest from external investments resulting in a negative variance of 37%. This is due to the significant cash flow pressures currently experienced by the municipality. The cash flow pressures have significantly reduced funds available for investment.

All adjustments necessary will be effected in the upcoming adjustments budget.

UTHUKELA DISTRICT MUNICIPALITY | 2017

ANALYSIS OF OPERATING EXPENDITURE (JULY 2016 - DECEMBER 2016)

Description	Budget Year 2016/17					
	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands						
Expenditure By Type						
Employee related costs	195,150	122,472	97,575	24,897	26%	195,150
Remuneration of councillors	6,552	2,719	3,276	(557)	-17%	6,552
Debt impairment	36,460	-	18,230	(18,230)	-100%	36,460
Depreciation & asset impairment	57,676	-	28,838	(28,838)	-100%	57,676
Finance charges						
Bulk purchases	5,901	1,712	2,950	(1,238)	-42%	5,901
Other materials	44,506	13,678	22,253	(8,575)	-39%	44,506
Contracted services	37,412	24,775	18,706	6,069	32%	37,412
Transfers and grants	10,512	25,294	5,256	20,038	381%	10,512
Other expenditure	154,188	46,252	77,094	(30,842)	-40%	154,188
Loss on disposal of PPE						
Total Expenditure	548,356	236,901	274,178	(37,277)	-14%	548,356

Budgeted
R274 178

Actual Outcomes
R 236 901

% Variance
- 14

The total operating expenditure of the municipality for the six month period is R236 million a 14% variance from the R296 million which was anticipated. Although this variance may indicate cost savings at first glance a closer look at the individual line items is required in order to evaluate the effect that this variance has had on service delivery.

EMPLOYEE RELATED COSTS:

Employee related costs incurred are 26% above what was budgeted for the 6 month period. This negative variance is due to the bonuses that were paid out in November 2016.

A closer look at the individual department votes will be taken to identify all necessary adjustments within the votes of the various departments.

BULK PURCHASES:

A total of R1.7 million has been incurred to date on bulk purchases. This amount is 42% below what was budgeted. The recorded bulk purchases are not a true reflection of the cost incurred on bulk purchases, there are still challenges in the completeness of invoices received from DWA.

The finance office is also engaging actively with DWA to ensure that accounts are received and settled timeously. Expenditure on this vote may increase once all account payments are made on a regular basis. No adjustment will be made to this vote until the water accounts have been verified.

OTHER MATERIALS:

Other materials have a variance of 39% from the amount originally budgeted. A negative variance on this line item is an indication of poor maintenance of municipal assets infrastructure.

We highlight that an amount of R6.9 million is still sitting under pending orders, which increases the total expenditure on this line item to R21.1 million thus reducing the variance.

CONTRACTED SERVICES:

Contracted services have a negative variance of 32%, resulting mainly from the full expenditure incurred on the preparation of 2015/2016 financial statements

- Audit fees
- Asset verification
- Vat audit
- Professional fees

TRANSFERS AND GRANTS:

This amount is the amount incurred on free basic services. The exorbitant variance of 381% is as a resultant of the amount spent on water tankers, to date an amount of R25.2 million has been spent on water tankers.

The drought is a serious concern for the municipality and any further strains on cash flows may undoubtedly result in a "collapse" of the municipality.

GENERAL EXPENDITURE:

General expenses are 40% below what was budgeted. This cost saving will have a positive financial impact on the year actual year end results. It is an indication of containment of costs.

However we note that certain individual votes within this line items relating to this line item have been overspent, and this may warrant Virements. Also the above cost saving may be further reduced by the implementation of certain special programmes that have been budgeted for in the second half of the financial year.

UTHUKELA DISTRICT MUNICIPALITY | 2017

SUMMARY OF CAPITAL PROJECT IMPLEMENTATION

Vote Description	Budget Year 2016/17							
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands								
Single Year expenditure appropriation								
105 - MUNICIPAL MANAGER	290	-	60	60	145	(86)	-59%	290
200 - CORPORATE SERVICES	1,315	-	558	741	658	83	13%	1,315
300 - BUDGET AND TREASURY	225	-	225	225	113	113	100%	225
405 - SOCIAL SERVICES	100	-	13	22	50	(28)	-57%	100
408 - WSA AND HEALTH SERVICES	460	-	-	-	230	(230)	-100%	460
500 - TECHNICAL SERVICES	262,744	-	38,023	120,407	131,372	(10,965)	-8%	262,744
510 - WATER AND SANITATION SERVICES	110	-	-	4	55	(51)	-92%	110
Total Capital Expenditure	265,244	-	38,878	121,458	132,622	(11,164)	-8%	265,244
Capital Expenditure - Standard Classification								
Governance and administration								
Executive and council	290	-	60	60	145	(86)	-59%	290
Budget and treasury office	225	-	225	225	113	113	100%	225
Corporate services	1,315	-	558	741	658	83	13%	1,315
Community and public safety								
Community and social services	100	-	13	22	50	(28)	-57%	100
Sport and recreation								
Public safety								
Housing								
Health	460	-	-	-	230	(230)	-100%	460
Economic and environmental services								
Planning and development	2,378	-	-	-	1,189	(1,189)	-100%	2,378
Road transport	2,378	-	-	-	1,189	(1,189)	-100%	2,378
Environmental protection								
Trading services								
Electricity	260,476	-	38,023	120,411	130,238	(9,827)	-8%	260,476
Water	260,476	-	38,023	120,411	130,238	(9,827)	-8%	260,476
Waste water management								
Waste management								
Other								
Total Capital Expenditure - Standard Classification	265,244	-	38,878	121,458	132,622	(11,164)	-8%	265,244
Funded by:								
National Government	262,691		38,023	120,411	131,346	(10,934)	-8%	262,691
Provincial Government								
District Municipality								
Other transfers and grants								
Transfers recognised - capital	262,691	-	38,023	120,411	131,346	(10,934)	-8%	262,691
Public contributions & donations								
Borrowing								
Internally generated funds	2,553		855	1,047	1,277	(230)	-18%	2,553
Total Capital Funding	265,244	-	38,878	121,458	132,622	(11,164)	-8%	265,244

Budgeted
R 131 622

Actual Outcomes
121 458

% Variance
-8

The capital expenditure for the year up to December 2016 is R 121 million resulting in a negative variance of 8% from the previously projected R131 million. A number of tenders were awarded in the second quarter and performance is expected to improve as we commence with the third quarter.

Departments with slow spending on the capital budget have been noted and will be required to implement remedial measures are to be put in place as senior managers are due to review their SDBIPs.

We also high light that the above capital budget does not include the RBIG (Regional Infrastructure grant) as it was previously a grant in kind. Slow expenditure on this grant has been noted, and it has come to our attention that this grant may be revoked by treasury.

The department concerned is actively addressing the matter.

UTHUKELA DISTRICT MUNICIPALITY | 2017

Cash and cash equivalents includes investments of R115 million. Trade and other payables includes unspent conditional grants of R233 million and VAT payable of R44 million.

ANALYSIS OF CASHFLOWS:

Description	Budget Year 2016/17					
	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands						
CASH FLOW FROM OPERATING ACTIVITIES						
Receipts						
Property rates, penalties & collection charges				-		
Service charges						
Other revenue	88,641	(10,318)	7,387	(17,705)	-240%	88,641
Government - grants	1,914	1,652	160	1,492	935%	1,914
Interest	600,890	482,739	28,183	454,556	1613%	338,199
Dividends	12,571	24,078	1,048	23,031	2198%	12,571
Payments						
Suppliers and employees						
Finance charges	(443,708)	(236,601)	(36,976)	199,625	-540%	(443,708)
Transfers and Grants						
NET CASH FROM/(USED) OPERATING ACTIVITIES	260,308	261,550	21,692	(239,858)	-1106%	260,308
CASH FLOWS FROM INVESTING ACTIVITIES						
Receipts						
Proceeds on disposal of PPE						
Decrease (Increase) in non-current debtors						
Decrease (increase) other non-current receivables						
Decrease (increase) in non-current investments						
Payments						
Capital assets	(265,244)	(130,339)	(22,104)	108,236	-490%	(265,244)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(265,244)	(130,339)	(22,104)	108,236	-490%	(265,244)
CASH FLOWS FROM FINANCING ACTIVITIES						
Receipts						
Short term loans						
Borrowing long term/refinancing						
Increase (decrease) in consumer deposits	380		32	(32)	-100%	380
Payments						
Repayment of borrowing						
NET CASH FROM/(USED) FINANCING ACTIVITIES	380	-	32	32	100%	380
NET INCREASE/ (DECREASE) IN CASH HELD	(4,556)	131,211	(380)			(4,556)
Cash/cash equivalents at beginning:	63,735	36,715	63,735			36,715
Cash/cash equivalents at month/year end:	59,179	167,926	63,355			32,159

The table above shows the total amounts collected by the municipality over the six month period. The highest collection has been yielded from national grant income totalling R482 million.

UTHUKELA DISTRICT MUNICIPALITY | 2017

The amount collected from consumer deposits is below the original budget and the necessary adjustments will be effected in the adjustments budget.

The amounts collected from consumer debtors is below what was originally anticipated as mentioned earlier a closer look will be taken at the collection rate to identify areas of further improvement.

Cash flow budget will be reviewed in the upcoming adjustments budget.

UTHUKELA DISTRICT MUNICIPALITY | 2017

ANALYSIS OF GRANTS RECEIVED:

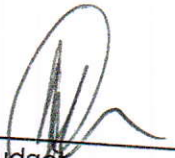
Description	Budget Year 2016/17							
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands								
RECEIPTS:								
Operating Transfers and Grants								
National Government:								
Local Government Equitable Share	336,999	-	112,216	252,955	168,500	56,565	33.6%	336,999
RSC Levy Replacement	279,315		57,735	196,222	139,658	56,565	40.5%	279,315
EPWP Incentive	47,937		47,937	47,937	23,969			47,937
Finance Management	3,169		1,426	2,218	1,585			3,169
special support councillor remuneration	1,460		-	1,460	730			1,460
Provincial Government:	5,118		5,118	5,118	2,559			5,118
shared services grant	1,200	-	-	1,200	600	600	100.0%	1,200
	1,200			1,200	600	600	100.0%	1,200
Total Operating Transfers and Grants	338,199	-	112,216	254,155	169,100	57,165	33.8%	338,199
Capital Transfers and Grants								
National Government:								
Municipal Infrastructure Grant (MIG)	262,691	-	47,936	164,441	131,346	8,592	6.5%	262,691
water services infrastructure grant	178,506		46,786	97,845	89,253	8,592	9.6%	178,506
rural asset management grant	81,807		-	65,446	40,904			81,807
	2,378		1,150	1,150	1,189			2,378
Total Capital Transfers and Grants	262,691	-	47,936	164,441	131,346	8,592	6.5%	262,691
TOTAL RECEIPTS OF TRANSFERS & GRANTS	600,890	-	160,152	418,596	300,445	65,757	21.9%	600,890

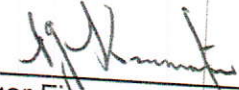
Conditional Grant allocations received up to mid-year were as follows:

- MIG – R97 million the entire amount was spent at the end of December 2016.
- FMG - R 1.4million an amount of R887 thousand remained unspent at the end of December 2016.
- EPWP - R 2.2 million of which R232 thousand remained unspent at the end of December 2016.
- MWIG – R65 million an amount of R61 million remained unspent at the end of December 2016.

UTHUKELA DISTRICT MUNICIPALITY | 2017

- Rural Road Asset Management- R1.1 million and R581 thousand remained unspent at the end of December 2016.

Prepared by: 
Accountant: Budget

Reviewed by: 
Senior Manager Finance

Approved by: _____
Chief Financial Officer

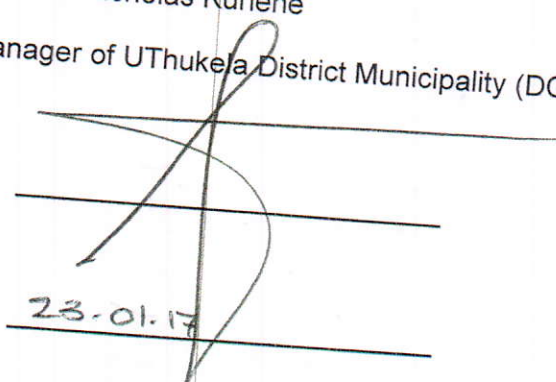
Municipal manager's quality certificate

I **Sifiso Nicholas Kunene**, **Municipal Manager** of UThukela District Municipality, hereby certify that the Section 72 and supporting documentation for the mid-year ended December 2016 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

23-01-17