

UTHUKELA
UMKHANDLU WESIFUNDA
DISTRKSMUNISIPALITEIT
DISTRICT MUNICIPALITY

2019/2020

MID YEAR REVIEW (S72)

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PURPOSE

To report to Council on the mid-year review of the financial and performance results for the first quarter of the 2019/20 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

UThukela District Municipality has seen great challenges in the 2019/20 financial year and remains under administration in terms of S139 of the MFMA. Consequentially service delivery has thus been affected. Council has however responded positively and has equally supported the intervention. A special adjustments budget supported by financial recovery plan has been adopted in November 2019. The interim finance committee established remains active. At midyear the positive effects of the fore mentioned have been noted.

The various capital projects budgeted for this financial year have commenced under constant supervision and monitoring.

Due to the current cash position and strain on cash flow the municipality has been forced to adopt a special adjustments budget, which was essentially a further reduction of the approved budget. Senior managers who are part of the interim finance committee have been monitoring this budget and have kept an eye on the identified cost drivers. This will essentially improve our cash position and facilitate the improvement in our cash position.

In other unfortunate highlights the municipality's rollover application for grants which remained unspent at the end of the 2018/19 financial year was not approved. The amount of R4,6 million will be withheld from the equitable share. This will not only further strain our cash flow but will make the adjustments budget process a great challenge.

It must be noted that an amount of R320 million has been received from the budgeted total of R432 million of the equitable share and an amount of R64 million has been received in respect of the MIG (municipal infrastructure grant) and R70 million in respect of MWSIG (municipal water services 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

SUMMARY OF FINANCIAL PERFORMANCE

ANALYSIS OF OPERATING REVENUE (JULY 2019 – DECEMBER 2019) EXCLUDING CAPITAL TRANSFERS:

Description	Budget Year 2020/21							Full Year Forecast
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
R thousands								
<u>Revenue By Source</u>								
Service charges - electricity revenue						-		
Service charges - water revenue	245,710	244,121	13,730	116,699	122,855	(6,156)	-5%	245,710
Service charges - sanitation revenue	17,281	16,632	18,905	26,694	8,640	18,054	209%	17,281
Interest earned - external investments	6,283	5,640	404	2,565	3,142	(577)	-18%	6,283
Interest earned - outstanding debtors	67,008	63,528	5,608	32,541	33,504	(963)	-3%	67,008
Dividends received					-	-		
Fines, penalties and forfeits	53				26	(26)	-100%	53
Transfers and subsidies	449,659	455,613	140,845	325,353	224,830	100,524	45%	449,659
Other revenue	3,655	27,664	53	2,827	1,828	999	55%	3,655
Gains on disposal of PPE						-		
Total Revenue (excluding capital transfers and contributions)	789,649	813,198	179,544	506,679	394,825	111,854	28%	789,649

**Budgeted
R394,825**

**Actual Outcomes
R 506,679**

**% Variance
28**

Operating revenue recognised for the period July 2019 to December 2019 amounts to R507 million resulting in a 28% positive variance from the R395 million which was anticipated.

The 28 % variance although positive must 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 45% positive variance on transfers recognised, which is the direct impact of the 1st and 2nd tranche of the equitable share of R320 million.
- ii. Sanitation revenue is 209% above the projected amount due to the high billing amount of December 2019. The tariff code used to bill sundry debtors (i.e. uMngeni) is linked to sanitation sales. Reported amount of R17.7 million billed to uMngeni in December 2019 will be rectified when the correct tariff code has been created and correcting journals processed.
- iii. Other revenue has a positive variance of 55% the access amount has been derived from litigation cases won by the municipality. As well as an amount of R724 thousand auction proceeds.

WATER & SANITATION SALES:

Water and sanitation sales income recognised combined is 204% above what was originally anticipated. This is due to the under estimation of sanitation sales in the special adjustments budget. (See explanation above).

INTEREST FROM OUTSTANDING DEBTORS:

This line item has yielded a negative variance of 3%, it appears we have billed less interest than we had originally anticipated this shows an increase in the previously anticipated collection rate.

The municipality has appointed debt collectors, which will improve the collection of outstanding debt. There is also direct liaising with government departments in attempt to recover outstanding debts. The municipality anticipates an improvement in the collection rate by year end due to these efforts.

INTEREST FROM INVESTMENTS:

A total of R2.5 million has been recognised as interest from external investments resulting in a negative variance of 18%.

The municipality has become heavily dependent on investments due to our poor cash condition. We also note the negative impact of the unapproved rollovers on investment interest materialised.

ANALYSIS OF OPERATING EXPENDITURE (JULY 2019 - DECEMBER 2019)

Description	Budget Year 2020/21							Full Year Forecast
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
R thousands								
Expenditure By Type								
Employee related costs	291,843	291,843	25,896	165,355	145,922	19,433	13%	291,843
Remuneration of councillors	7,956	6,342	566	3,261	3,978	(717)	-18%	7,956
Debt impairment	168,789	168,789	-	-	84,395	(84,395)	-100%	168,789
Depreciation & asset impairment	58,644	58,644		15,812	29,322	(13,510)	-46%	58,644
Bulk purchases	4,208	130,953		354	2,104	(1,750)	-83%	4,208
Other materials	8,950	8,950	63	981	4,475	(3,494)	-78%	8,950
Contracted services	57,787	47,926	6,681	21,438	28,894	(7,456)	-26%	57,787
Transfers and subsidies					-	-		
Other expenditure	75,279	71,651	4,322	41,546	37,639	3,907	10%	75,279
Loss on disposal of PPE						-		
Total Expenditure	673,456	785,098	37,527	248,746	336,728	(87,982)	-26%	673,456

Budgeted
R336, 728

Actual Outcomes
R 248,748

% Variance
- 26

The total operating expenditure of the municipality for the six-month period is R249 million a 26% negative variance from the R 337 million which was anticipated.

EMPLOYEE RELATED COSTS:

Employee related cost incurred is 13% above what was budgeted for the six month period due to the payment of bonuses in November 2018 which has not been accounted for in the calculation of the variance. Overtime also remains a major cost driver should overtime cutting measures not be implemented, this negative variance is most likely to escalate by year end.

BULK PURCHASES:

Bulk purchases reflect a negative variance of 83%, since the amount of R102 million as at 31 December 2019 owed to uMngeni Water has not been included in the year to date actual of R354 thousand.

OTHER MATERIALS:

The bulk of other materials comprises of fuel, oil and chemicals. Other materials have a variance of 78% negative variance from the amount originally budgeted. However council must also note that there are also outstanding payments which upon settlement will reduce the variance.

CONTRACTED SERVICES:

The bulk of contracted services comprise of vehicle repairs, water tankers, repairs to pumps and pipe lines. A number of payments for such contracted services remain outstanding and once payments have been verified and accounted for the necessary adjustment will decrease the variance.

GENERAL EXPENDITURE:

General expenditure is 10% below what was budgeted. This is due to cost containment measures effected through the special adjustment budget. Expenditure remains highly monitored in light of the adopted budget funding plan.

SUMMARY OF CAPITAL PROJECT IMPLEMENTATION

Vote Description	Budget Year 2020/21							
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands								
500 - WATER, SANITATION AND TECHNICAL	296,937	-	18,332	114,276	148,469	(34,192)	-23%	296,937
Total Capital Expenditure	296,937	-	18,332	114,276	148,469	(34,192)	-23%	296,937
Capital Expenditure - Functional Classification								
Energy sources						-		
Water management	296,937		18,332	114,276	148,469	(34,192)	-23%	296,937
Waste water management						-		
Waste management						-		
<i>Other</i>						-		
Total Capital Expenditure - Functional Classification	296,937	-	18,332	114,276	148,469	(34,192)	-23%	296,937
Funded by:								
National Government	296,937		18,332	114,276	148,469	(34,192)	-23%	296,937
Provincial Government						-		
District Municipality						-		
Other transfers and grants						-		
Transfers recognised - capital	296,937	-	18,332	114,276	148,469	(34,192)	-23%	296,937
Borrowing						-		
Internally generated funds						-		
Total Capital Funding	296,937	-	18,332	114,276	148,469	(34,192)	-23%	296,937

Budgeted
R 114, 276

Actual Outcomes
R 148,469

% Variance
-23

The capital expenditure for the first quarter up to December 2019 is R114 million resulting in a negative variance of 23% from the previously projected R148 million

ANALYSIS OF OUTSTANDING DEBTORS:

Age analysis at December 2019

	Budget Year 2020									
	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total	Total over 90 days
R thousands										
Debtors Age Analysis By Income Source										
Trade and Other Receivables from Exchange Transactions - Water	24,772	25,264	19,554	18,218	18,974	20,954	16,707	950,738	1,095,181	1,025,591
Other	55	14	(2)	(5)	47	12	169	1,011	1,302	1,235
Total By Income Source	24,827	25,278	19,552	18,213	19,022	20,966	16,876	951,749	1,096,482	1,026,825
2019/20 - totals only									-	-
Debtors Age Analysis By Customer Group										
Organs of State	2,021	2,529	1,360	1,207	996	928	807	21,607	31,455	25,545
Commercial	3,164	2,432	1,428	1,221	1,134	1,120	1,026	51,058	62,583	55,558
Households	19,587	20,302	16,766	15,789	16,845	18,907	14,874	878,072	1,001,143	944,487
Other	55	14	(2)	(5)	47	12	169	1,011	1,302	1,235
Total By Customer Group	24,827	25,278	19,552	18,213	19,022	20,966	16,876	951,749	1,096,482	1,026,825

Reflected above is the age analysis of debtors for the months of July 2019 – December 2019 totalling over R1 billion at midyear.

Midyear Collection Rate:

The average collection rate stood at 59% at the end of December 2019

MENTS VS BILLING AS AT 31 DECEMBER 2019				
MONTH	BILLING	MONTHS	RECIEPTS	RECOVERY RATE
June 2019	22,110,925.41	July 2019	10,015,313.04	45%
July 2019	23,159,953.17	August 2019	8,895,211.21	38.41%
August 2019	24,236,017.66	September 2019	7,829,937.71	32.31%
September 2019	24,031,427.68	October 2019	10,180,333.70	42.36%
October 2019	18,254,144.00	November 2019	10,057,597.15	55.10%
November 2019	21,115,756.82	December 2019	12,446,998.60	58.95%
December 2019	32,634,811.53			0.00%
	165,543,036.27		59,425,391.41	36%
TOTALS				
BILLING - JUNE 2019 - DECEMBE	165,543,036.27			
RECIEPTS - JUNE 2019- DECEME	59,425,391.41			
DIFFERENCE		106,117,644.86		36%

The fluctuation in the collection rate is noted, collection rate was at an average of 36% at the end of the second quarter.

The department is also appointed debt collectors to assist in recovering old debt, which will yield an improvement in receipts.

ANALYSIS OF CASH & INVESTMENTS:

DC23 Uthukela - Supporting Table SC5 Monthly Budget Statement - investment portfolio - M06 December						
Investments by maturity Name of institution & investment ID	Ref	Opening balance	Interest to be realised	Partial / Premature Withdrawal (4)	Investment Top Up	Closing Balance
R thousands						
Municipality						
FNB		45,402	215	(21,000)	8,000	32,616
NEDBANK		1	39	-	20,000	20,040
INVESTEC		-	71		30,000	30,071
ABSA		73	40	(0)	20,000	20,113
STANDARD		-	39	-	20,000	20,039
TOTAL INVESTMENTS AND INTEREST	2	45,476		(21,000)	98,000	122,879

The table above reflects investments as at the end of the second quarter, at the various institutions. The total investments at mid-year totalled R122 million.

At the end of December 2019 cash on hand was R31.4 million

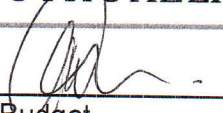
Bank Balances				
The following reflects bank balances at 31 December 2019				
DESCRIPTION	SEPTEMBER	OCTOBER 2019	NOVEMBER 2019	DECEMBER 2019
FNB MAIN ACCC	2,532,976.52	6,615,611.83	30,554,185.21	7,162,135.34
FNB WATER AC	0	0	0	0
	2,532,976.52	6,615,611.83	30,554,185.21	7,162,135.34
Total cash held	7,162,135.34			

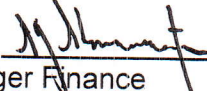
ANALYSIS OF GRANTS RECEIVED:


Conditional Grant allocations received at mid-year were as follows:

- MIG – R64 million
- FMG - R 2 million
- EPWP - R 4.9 million
- WSIG – R70 million
- DISASTER MANAGEMENT GRANT – R2 million
- RURAL ROADS ASSET MANAGEMENT GRANT – R1.8 million

UTHUKELA DISTRICT MUNICIPALITY | 2020

Prepared by: 
Accountant: Budget

Reviewed by: 
Senior Manager Finance



Approved by: 
Chief Financial Officer

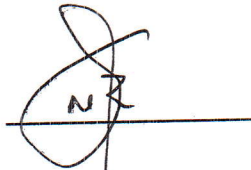
Municipal manager's quality certificate

I **Nhlanhla Zamokuhle Khuzwayo** acting municipal manager of UThukela District Municipality, hereby certify that the Section 72 and supporting documentation for December 2019 have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name: Nhlanhla Zamokuhle Khuzwayo

Acting Municipal Manager of UThukela District Municipality (DC23)

Signature:

A handwritten signature in black ink, consisting of a large, stylized 'N' and 'Z' intertwined, written over a horizontal line.

Date:

20 January 2020