

In-Year Report of the Municipality

Prepared in terms of the Local Government: Municipal Finance Management Act (56 of 2003); Municipal Budget and Reporting Regulations₄ Government Gazette 32141₄ 17 May 2009

SECT 72 - MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT JULY 2017 TO DECEMBER 2017

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Legislative Framework

This report has been prepared in terms of the following enabling legislation.

The Municipal Finance Management Act-Number 56 of 2003

Section 72: Mid-Year Budget and Performance Assessment

- (1) The accounting officer of a municipality must by 25 January of each year—
 - (a) assess 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 and
 - (iv) the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and
 - (b) submit a report on such assessment to—
 - (i) the mayor of the municipality; (ii) the National Treasury; and
 - (iii) the relevant provincial treasury.
 - (2) The statement referred to in section 71(1) for the sixth month of a financial year may be incorporated into the report referred to in subsection (10) of this section.
 - (3) The accounting officer must, as part of the review—
 - (a) make recommendations as to whether an adjustments budget is necessary; and
 - (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.
- Reports on failure to adopt or implement budget-related and other policies

Section 54: Budgetary control and early identification of financial problems

- (1) On receipt of a statement or report submitted by the accounting officer of the municipality in terms of section 71 or 72, the mayor must—
 - (a) consider the statement or report;
 - (b) check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan;
 - (c) consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of the council following approval of an adjustments budget;
 - (d) issue any appropriate instructions to the accounting officer to ensure—
 - (i) that the budget is implemented in accordance with the service delivery and budget implementation plan; and
 - (ii) that spending of funds and revenue collection proceed in accordance with the budget

- (e) identify any financial problems facing the municipality, including any emerging or impending financial problems; and
- (f) in the case of a section 72 report, submit the report to the council by 31 January of each year.
- (2) If the municipality faces any serious financial problems, the mayor must—
 - (a) promptly respond to and initiate any remedial or corrective steps proposed by the accounting officer to deal with such problems, which may include—(i) steps to reduce spending when revenue is anticipated to be less than projected in the municipality's approved budget;
 - (ii) the tabling of an adjustments budget or
 - (iii) steps in terms of Chapter 13; and
 - (b) alert the council and the MEC for local government in the province to those problems.
- (3) The mayor must ensure that any revisions of the service delivery and budget implementation plan are made public promptly.

Local Government: Municipal Finance Management Act, 2003

Municipal Budget and Reporting Regulations

Format of a mid-year budget and performance assessment

- 33. A mid-year budget and performance assessment of a municipality referred to in section 72 of the Act must be in a format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

Publication of mid-year budget and performance assessments

- 34.(1) Within five working days of 25 January each year the municipal manager must make the mid-year budget and performance assessment public by placing it on the municipal website.
- (2) The municipal manager must make public any other information that the municipal council considers appropriate to facilitate public awareness of the mid-year budget and performance assessment, including-
 - (a) summaries in alternate languages predominant in the community, and
 - (b) information relevant to each ward in the municipality.

Submission of mid-year budget and performance assessments

- 35. The Municipal Manager must submit to the National Treasury and the relevant Provincial Treasury, in both printed and electronic form –
 - (a) the mid-year budget and performance assessment by 25 January of each year; and
 - (b) any other information relating to the mid-year budget and performance assessments as may be required by the National Treasury.

PART 1 MID- YEAR BUDGET AND PERFORMANCE ASSESSMENT

This report has been prepared in terms of the Local Government: Municipal Finance Management Act Number 56 of 2003: Municipal Budget and Reporting Regulations, Government Gazette 32141, 17 April 2009.

Section 1-Mayors Report

Mayor's report

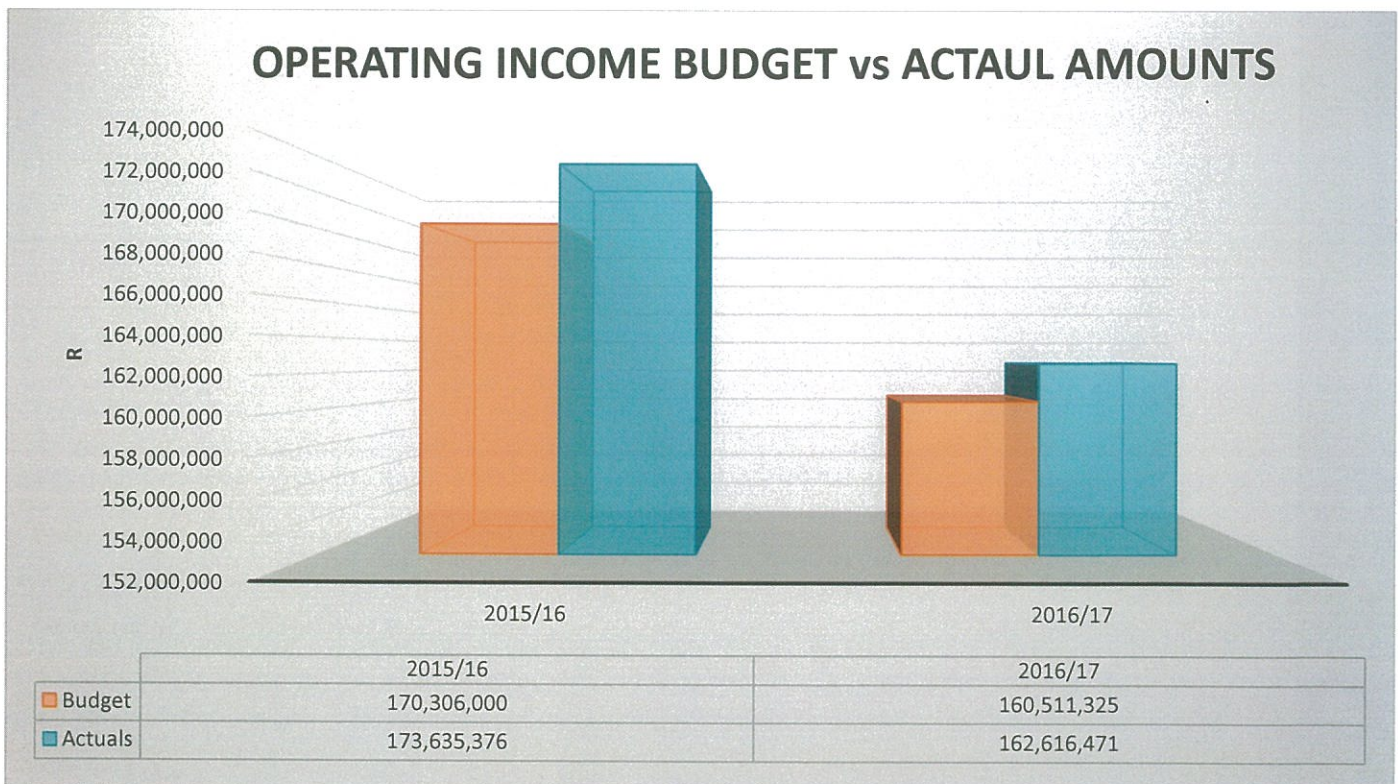
For the mid-year budget and performance assessment, the mayor's report must also provide _

- (a) a summary of the past year's annual report, and progress on resolving problems identified in the annual report and the audit report;
- (b) a summary of any potential impact of the national adjustments budget and the relevant provincial
- (c) a recommendation as to whether an adjustments budget for the municipality is necessary

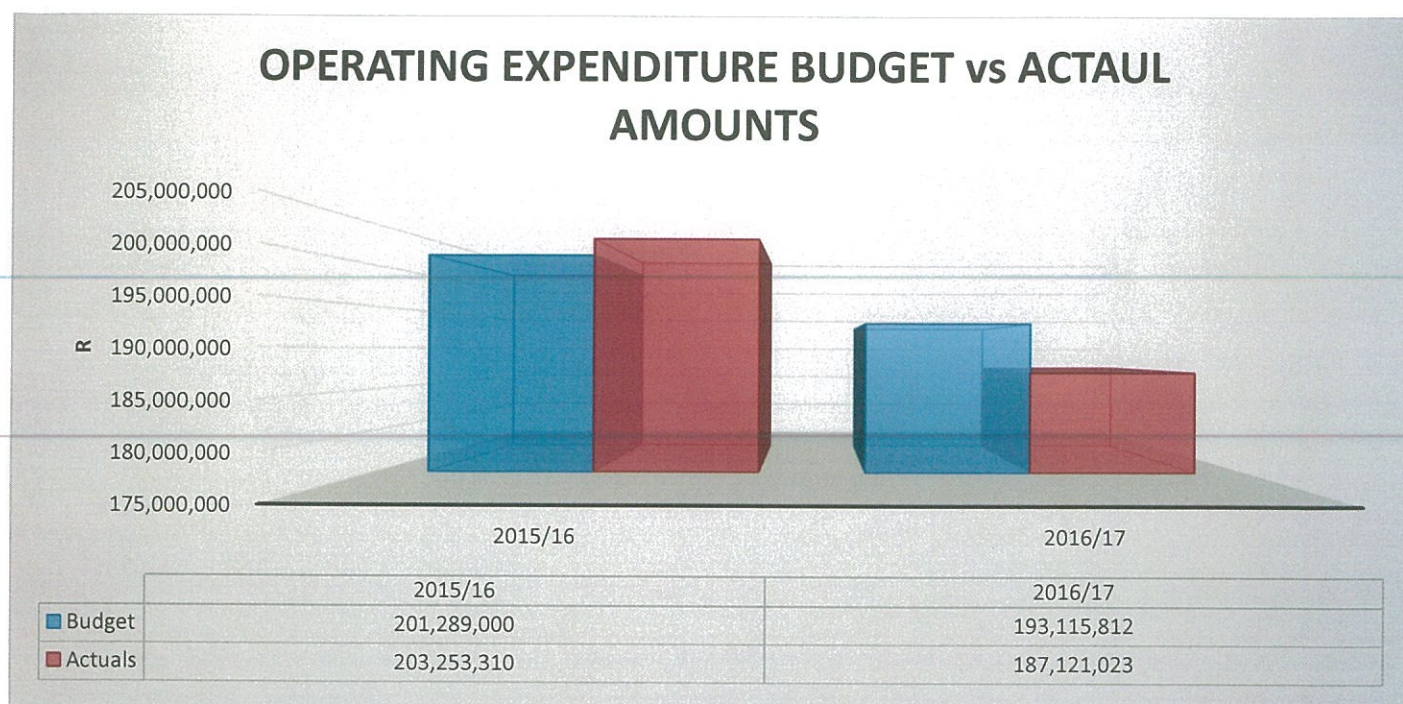
1.1.1: Summary of the previous year's annual report (a)

(a) Performance against Budgets

The following graph shows the Operating Income Budget versus Actual for 2015/16 as well as the 2016/17 financial years. The Operating Income has decreased by 6.34% from R173m to R162m.

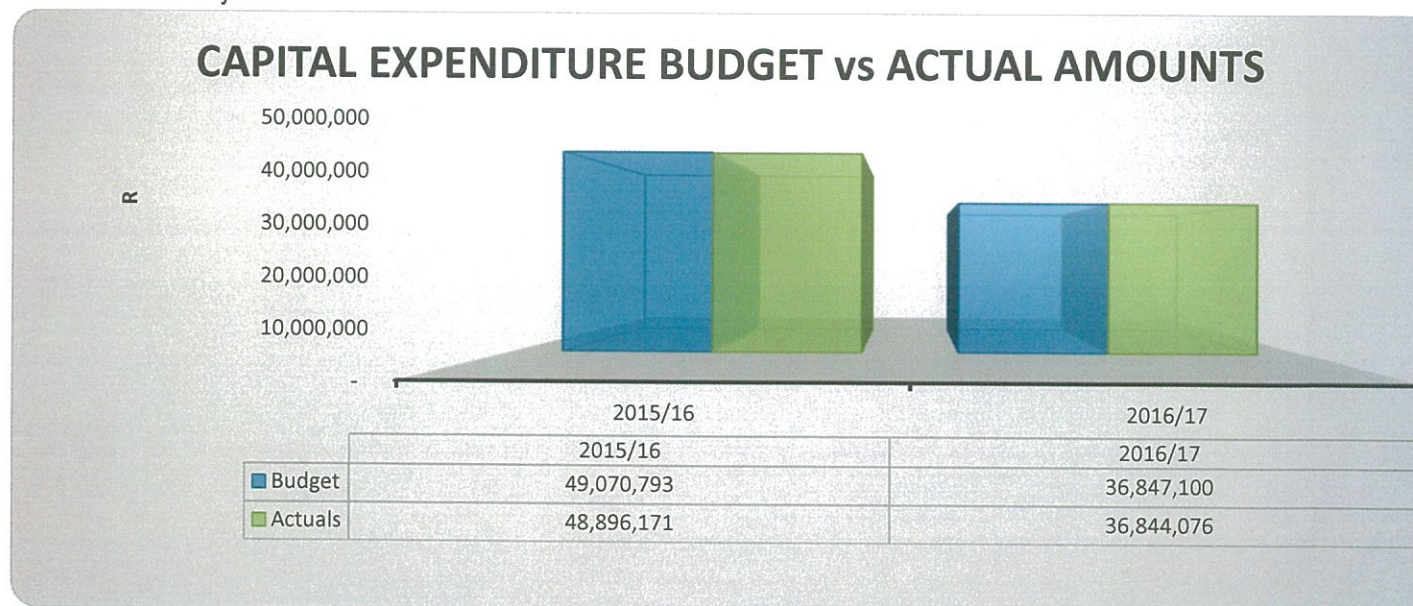


The following graph illustrates the Operating Expenditure Budget versus Actual for 2015/16 as well as the 2016/17 financial year. The Operating Expenditure has decreased by 7.94% from R 203m to R 187m.



(b) Percentage of Capital Budget Spent

99.6% of the budgeted amount was spent during 2015/16 financial year and in 2016/17 99.99% of the capital budget was spent. The 0.4% and 0.01% under expenditure was on internally generated funds as 100 % of the MIG grant was utilized during the 2 years. The following graph shows the Capital Expenditure Budget versus Actual for 2015/16 as well as the 2016/17 financial year. The Capital Expenditure increased marginally (0.3%) from the 2015/16 to the 2016/17 financial year.



1.1.2 Financial problems or risks facing the municipality

It is a known fact that due to the endemic poverty in the area under the jurisdiction of Emalahleni, the collection rate for municipal services and Rates debt is very low. This has a detrimental effect on the municipality's financial resources.

The municipality is Grant dependent with over 80% of its total revenue being Grants received from the Treasury, Departments and the District Municipality. The recent cuts on Grants by National Treasury will have a huge impact on operations of the municipality as this would mean there is lesser available financial resources to meet all the needs of the community.

Financial administration should be the second most important focus point of Emalahleni Municipality with basic service delivery as the most important. The economic outlook for the country does look promising after the recent manifestations in the Political arena to which the markets have responded positively and has seen the Rand gaining some noticeable ground when compared to other currencies. The drought situation in the area and country will also have a huge impact on food prices and disposable income of consumers. The continuous ESKOM price increase will also have an effect on consumers and the municipality. All the latter factors mentioned will put huge pressure on the revenue sources and collection rate of the municipality.

1.1.3: Remedial Action taken on Audit Outcomes of Prior Year

Emalahleni Municipality had an unqualified audit opinion for the 2016/2017 financial year.

The Municipality has put extensive effort into implementing the recommendations in respect of prior year's findings that were made during the previous audit. All the audit recommendations have been actioned through an audit action plan where progress is regularly monitored. The detailed audit action plan forms part of the 2017 Annual Report. Regular updates on the implementation of agreed upon actions will be given to authoritative structures of the Council.

The Annual Report of the 2016/17 financial year was tabled and adopted at a Council meeting held on 08 December 2017 and the Oversight Report at a Council meeting held on 14 December 2017. Any problems and/or corrective actions identified in the oversight report by Council will be monitored and actioned for correction in the current financial year.

1.1.4: Mid-Year Performance Assessment

Municipal adjustments budgets

- (1) A municipality may revise an approved annual budget through an adjustments budget.
- (2) An adjustments budget—
 - (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for;

- (c) may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- (d) may authorize the utilization of projected savings in one vote towards spending under another vote;
- (e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- (f) may correct any errors in the annual budget; and
- (g) may provide for any other expenditure within a prescribed framework.

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."

The annual budget is approved for Total Revenue by Source' and below is a table reflecting financial performance for the first half of the year (July 2017 – December 2017).

EC136 Emalahleni (Ec) - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

Description		Ref	2016/17	Budget Year 2017/18							
			Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast	Under/(Over Budgeted)
R thousands									%		
Revenue By Source											
Property rates			4,146	4,302	(0)	3,006	2,151	854	40%	4,302	-
Service charges - electricity revenue			9,079	10,765	675	4,236	5,383	(1,146)	-21%	8,473	(2,292)
Service charges - refuse revenue			3,777	3,500	291	1,742	1,750	(8)	0%	3,500	-
Rental of facilities and equipment			727	815	67	413	408	6	1%	827	12
Interest earned - external investments			2,313	2,538	16	479	1,269	(790)	-62%	958	(1,580)
Interest earned - outstanding debtors			4,709	5,216	415	2,378	2,608	(230)	-9%	4,756	(460)
Fines, penalties and forfeits			124	337	4	33	169	(135)	-80%	67	(271)
Licences and permits			1,073	1,700	97	883	850	33	4%	1,767	67
Agency services			(0)	958	6	36	479	(479)	-100%	72	(887)
Transfers and subsidies			135,173	123,838	38,914	90,334	61,919	28,415	46%	124,639	801
Other revenue			731	622	505	570	311	295	95%	622	-
Gains on disposal of PPE			490	-	-	115		115	#DIV/0!	-	-
Total Revenue (excluding capital transfers and contributions)			162,341	154,592	40,989	104,226	77,296	26,930	35%	149,982	(4,610)
Expenditure By Type											
Employee related costs			65,850	78,926	5,494	34,127	39,463	(5,336)	-14%	78,926	-
Remuneration of councillors			11,185	12,071	943	5,656	6,036	(379)	-6%	12,071	-
Debt impairment			7,406	7,500	625	3,750	3,750	-		7,500	-
Depreciation & asset impairment			20,564	24,729	2,044	12,265	12,365	(99)	-1%	24,729	-
Finance charges			1,363	657	-	-	329	(329)	-100%	657	-
Bulk purchases			12,948	16,550	29	3,082	8,275	(5,193)	-63%	12,500	(4,050)
Other materials			691	6,571	500	812	3,286	(2,473)	-75%	6,571	-
Contracted services			11,247	5,882	453	6,250	2,941	3,309	113%	8,683	2,801
Transfers and subsidies			872	435	0	0	218	(217)	-100%	435	-
Other expenditure			50,476	41,501	3,828	19,954	20,750	(796)	-4%	41,501	-
Loss on disposal of PPE			1,244	-	-	-	-	-		-	-
Total Expenditure			183,845	194,822	13,917	85,897	97,411	(11,514)	(0)	193,573	(1,250)
Surplus/(Deficit)			(21,505)	(40,230)	27,072	18,329	(20,115)			(43,591)	(3,361)
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)			23,170	32,358	4,445	12,567	16,179	(3,612)	(0)	32,358	-
Surplus/(Deficit) after capital transfers & contributions			1,666	(7,872)	31,517	30,897	(3,936)			(11,233)	(3,361)

OPERATING REVENUE

Revenue achieved to date including operating transfers is 35% (R26.930 million) above the year-to-date budget. However, when operating transfers are excluded, revenue achieved is 10% (R 1,485 million) below the year to date budget. The full year forecast based on current collection levels indicates that the municipality will end the year with an under collection for revenue of R 4.496 million, and this is with the assumption that the budgeted rates and service charges together with the interest charged will be collected in full, which does not however always hold true, when adjusting expenditure management should therefore be weary. The full year forecast based on current collection levels indicates that the municipality will end the year with an under collection for revenue of R 4.496 million, and this is with the assumption that the budgeted rates and service charges together with the interest charged will be collected in full, which does not however always hold true, when adjusting expenditure management should therefore be weary of this fact. Using the current trends as a baseline and assuming very little change would occur, Electricity revenue, Interest on external investments, Interest on Debtors, Fines and Agency fees should be adjusted downwards. Using the same assumptions, one would suggest that the rental on facilities, Licenses and Permits should be adjusted upwards in order to bring the budget in line with current trends, (C4). It would be advisable to adjust Property rates and Service Charges in line with the current collection rates so to not give an unrealistic expectation of revenue where in actual fact that amount would not be collected. The current collection rate as at end of December 2017 is 34.46% this then implies that only 34.46% would actually be expected to be collected from these revenues. The municipality budgets on realistic estimates and thus the budget for service charges and Property rates should be adjusted to the expected recoverable amounts. An amount of R 115 000 was received through the sale of land (Gains on Disposal of PPE) in the first half of the financial year and no budget had been provided, this amount will not to be provided for and corrected in the adjustment budget. A budget amount equaling the amount received should be provided for unless the Directorate in charge of the sales can indicate whether there will be other sales expected before the end of the financial year.

The PEDTA and Community Services Directorates have made requests for funding from CHDM and DSRAC respectively and the outcome of these requests will need to be included in the adjustments budget should the funding be received.

The Grant from CHDM for R 800 500 for the Construction of a Feedlot which was received and not utilized in the prior year has also not been included in the current year budget and should also be accommodated in the adjustments as it will be used in the current financial year.

OPERATING EXPENDITURE

Operating expenditure incurred amounts to 88% or 12% below the year-to-date budget, (C4). All expenditures are under spent at this stage except for Contracted Services which is 113% overspent. Employee related costs, Bulk purchases and Other materials contributed the most in the under expenditures with 14%, 63% and 75%, respectively. The full year forecast based on current trends suggest an under spending at year end. The PM13 report generated as at 31 December 2017 suggest that there are certain votes within Directorates that have been under budgeted for. An adjustment of budget for votes within a Directorate where possible should be undertaken to ensure that no unauthorized expenditure is incurred. Financial computations exercise will be done on Debt