

NKETOANA LOCAL MUNICIPALITY



Mid – Year Budget and Performance Assessment Report

December 2014



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MID-YEAR PERFORMANCE ASSESSMENT REPORT OF NKETOANA LOCAL MUNICIPALITY FOR 2014/2015 FINANCIAL YEAR.

1. INTRODUCTION

1.1 PURPOSE

To present the 2014/2015 mid-term budget and performance assessment for the period 1 July 2014 to 31 December 2014 in terms of section 72 and 88 of the Municipal Finance Management Act (MFMA).

1.2 BACKGROUND

In terms of section 72 of the Local Government: Municipal Finance Management Act (Act No.56 of 2003) the accounting officer of a municipality must by the 25 January of every year –

- (a) assess the performance of the municipality during the first half of the financial year, taking into account –
 - (i) the monthly statement referred to in section 71 for the first half of the financial year;
 - (ii) the municipality 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 report in terms of section 88 from any such entities; and
- (b) submit a report on such assessment to the mayor of the municipality, the National Treasury and Provincial Treasury.

Thereafter, the mayor must, in terms of section 54(1) –

- (a) consider the 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 revision 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 council following approval of the adjustment budget;
- (d) Issue any appropriate instructions to the accounting officer to ensure –
 - (i) that the budget is implemented in accordance to the service delivery and



- (ii) that the spending of funds and revenue collection proceed in accordance with the budget;
- (iii) identify any financial problems facing the municipality, including any emerging or impeding financial problems; and
- (iv) submit the report to the council by 31 January of each year.

2. COMMENTS BY THE ACCOUNTING OFFICER

The financial administration of the municipality it is still managed well and the sustained good audit report for 2013/14 financial year support my statement. The challenge that the municipality has been facing is the shortage of staff and the challenge of paying our suppliers within 30 days remains a challenge due to the cash flow challenges of the municipality.

Spending on capital projects was another identified area which needed attention during the 2013/14 financial and I am pleased to highlight that the municipality was able to spend 100% of MIG during the financial year as initially intended.

3. RECOMMENDATIONS BY THE ACCOUNTING OFFICER

After assessing the financial performance of the municipality in the first half of the financial year, I recommend the 2014/15 budget to be adjusted to accommodate the spending of funds in accordance with budget and be submitted to council on 29 January 2015.

4. DISCUSSIONS

The report will be discussed under the following broad headings:

- FINANCIAL MANAGEMENT REVIEW
- MID TERM PERFORMANCE REVIEW
- ANNUAL REPORT

4.1 FINANCIAL MANAGEMNT REVIEW

This section comprises of two segments in terms of the reporting method as per Treasury requirements and is as follows.



First Segment -In Year Report

- Mayor's Report
- Executive Summary

Second Segment-Supporting Documentation

- Capital Expenditure as at December 2014
- Financial Performance
- Analysis of Revenue and Expenditure
- Cash Flow Forecast
- Bank and Investment
- Municipal Bank Accounts
- Creditor's Analysis
- Debtors and Billing
- Municipal Grants
- Conclusion
- Municipal Manager's quality certification



5. MAYOR'S REPORT

5.1 Overview

The municipality received an MIG allocation of R 32 297 000 for the 2014/15 financial year of which R19 407 000 has been received to date. An amount of R12 629 368 was spent on MIG which puts our spending at 63% based on the amount of R19, 407,00. The breakdown is as follows:

Project Name	Budget 2014/15	Expenditure to date	% spend to date
PMU	1 328 600	649 873	49%
Paving: Mamafubedu	580 676	506 782	87%
Paving: Ntha	840 241	506 782	60%
Paving: Petsana	9 281 694	4 597 173	50%
Provision of Sanitation and toilets – Petsana	3 693 941	1 155 221	31%
Mamafubedu Recycled Water	0	-	0%
Ntha/Lindley New Water Purification Works	2 817 364	1 961 889	70%
Water Meters: Petsana	796 190	206 996	26%
Water Meter: Ntha	0	-	0%
Water Meters: Mamafubedu	0	-	0%
Reltz: Construction of a New Solid waste disposal	262 787	141 052	24%
Arlington: Construction of transfer station	948 969	948 969	100%
Upgrading of Mamafubedu Sports Complex	6 021 538	1 954 631	32%
	26 572 000	12 629 368	48%



5.2 The breakdown per department

Department	Budget 2013/14	Expenditure to date	% spend to date
Moyors' Office	1 384 000	995 386	72%
Speakers' Office	6 451 892	2 778 856	43%
Municipal Managers' Office	8 250 192	5 226 928	63%
Corporate Services	23 545 096	6 732 067	29%
Finance	30 535 801	9 228 996	30%
Director Community Service	3 043 505	692 685	23%
Urban and Planning	2 016 407	503 949	25%
Refuse	21 633 463	15 853 095	73%
Parks and Cemetery	12 492 463	2 862 928	22%
Sports and Recreation	6 535 407	1 650 326	25%
Traffic and Fire	4 148 704	1 539 298	37%
LED	1 905 000	516 000	27%
Roads and Storm Water	69 539 147	9 314 670	13%
Water	47 778 304	18 966 605	40%
Electricity	64 815 489	9 314 670	13%
Waste Waste	19 491 840	7 444 148	55%

The total percentage spent on Council and Admin (Mayor, Speaker and MM) is 56%

The total percentage spent on Finance and Admin (Corporate and Finance) is 30%

The total percentage spent on Community Services is 46%

The total percentage spent on Infrastructure Services is 32%



5.3 ISSUES EMANATING FROM THE PREVIOUS FINANCIAL YEAR'S ANNUAL REPORT

The following issues are priority issues emanating from the previous year's Annual Report that have since been addressed by the municipality:

- The recordkeeping system of the municipality related to the PMS. Evidence files are now recorded, updated at regular intervals, and available for audit purposes.
- Planning of refuse removal services has improved substantially. Weekly work plans are now compiled and integrated into monthly reports. Job cards have also been introduced.
- The Department of Technical services has developed a system of job differentiation that has considerably improved specialization and performance. Work is now divided amongst managers responsible for water and sanitation, roads and storm water and electricity.
- Revenue collection has improved considerably, and a draft Revenue Enhancement Strategy has been finalized for approval by Council.
- All reports required for audit purposes in terms of the MFMA are now compiled as required.
- The document record system has improved substantially and accessibility to records is now freely available.

5.4 AUDITOR GENERAL'S FINDINGS OF 2013/14

- The municipality incurred unauthorised expenditure of R13 227 353 (2013: R31 166 223). The unauthorised expenditure was as a result of the budgeting process not been properly organised.
- The municipality incurred irregular expenditure of R14 622 396 (2013: R15 757 579). The irregular expenditure was as a result of contravention of the supply chain management regulations.
- Material losses to the amount of R41 712 998 (2013: R29 608 495) were incurred as a result of a write-off of irrecoverable trade debtors.
- Material losses to the value of R607 769 (2013: R479 463) as a result of water distribution loss.
- Material losses to the value of R4 318 449 (2013: R5 084 776) as a result of electricity distribution loss.
- Nketoana Local Municipality incurred a net loss of R75 071 342 (R43 243 511) during the year ended 30 June 2014 and, as of that date. These conditions, along with other matters as set forth in note 49, indicate the existence of a material



uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

- In note 46 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 30 June 2014 in the financial statements of the Nketoana Local Municipality at, and for the year ended, 30 June 2013.

5.5 AUDIT ACTION PLAN RESULTS OF THE 2013/14 FINANCIAL YEAR

The Municipality retained the Unqualified Audit opinion from AGSA.

The municipality will be improving on the recommendation of auditor general to ensure that we receive the clean audit from AGSA.

Management we busy with the Action Plan which will be submitted to internal audit to follow up on the implementation process detailed in the action plan and provide assistance where necessary in order to improve the outcome of the audit.

5.6 ADJUSTMENT TO BUDGET AND SERVICE DELIVERY TARGETS AND INDICATORS

As at the beginning of the year, Nketoana Local Municipal Council and administration started operating in terms of the approved Integrated Development Plan (IDP), Budget and Service Delivery and Budget Implementation Plan (SDBIP) for the 2014/2015 Financial year.

All these documents were based on needs analysis of the communities and the financial position of the municipality during the preparatory phase.

However, there were various issues that needed immediate action and these put pressure on the financial resources at the disposal of the municipality.

Consequently, the municipality found itself under a problem where some of the vote has no more funds available, meaning, indicators and targets which may or were planned cannot be achieved.

Therefore targets, indicators, programmes and projects must be reassessed in terms of the available resources and adjustments therefore be made.



6. EXECUTIVE SUMMARY

This mid-year report is a mechanism which seeks to review the progress that is being made by Nketoana Local Municipality in realizing the targets it had set itself at the beginning of the financial year. It clearly documents the achievements over six months of the financial year (01/07/2014 to 31/12/2014 and more fundamental, illustrates some of the challenges that confront the progress that has been accomplished by the municipality over this period .In order to provide a telling background to this report, this section provides a broad overview of the financial performance of Nketoana Local Municipality

This will be discussed under these broad headings:

- Capital expenditure
- Operating Revenue
- Operating Expenditure
- Cash Forecast
- Bank and Investment
- Municipal Bank Accounts



7. BUDGET PERFORMANCE REVIEW

7.1 CAPITAL EXPENDITURE AS AT DECEMBER 2014

Name of Item	Original Budget 2014/15	Adjusted Budget 2014/15	Actual Expenditure	% Spent
Finance and Admin	850 000	850 000	265 197.92	31%
PMU	1 328 600	1 328 600	649 873	48%
Roads	8 134 542.39	10 702 611.00	5 610 737	69%
Waste Water Management	6 787 409.47	3 693 941.00	1 155 221	17%
Water	25 378 166.55	24 613 554.00	2 168 885	9%
Electricity	6 100 000	7 123 088.90	1 999 281	33%
Solid Waste Management	6 163 626.86	1 688 667.10	1 090 021	18%
Sports	5 279 654.73	6 021 538.00	1 954 631	37%
Park and Cemetery	5 000 000	0	0	0%
TOTAL	61 022 000	56 022 000	14 893 847	24%



7.2 FINANCIAL PERFORMAMCE

Description	Original Budget	Adjusted Budget	Actual	% Spent
Revenue				
Property Rates	23 320 000	36 557 108	3 480 362	15%
Electricity	40 500 000	40 500 000	11 026 610	27%
Water	39 220 000	46 587 666	5 561 213	14%
Sewer services	18 020 000	22 020 000	2 536 387	14%
Refuse	18 958 000	22 958 000	1 613 539	9%
Interest – Debtors	18 762 000	20 600 000	315 948	2%
Interest – Investment	425 000	500 000	285 939	67%
Grants	82 649 000	82 649 000	59 506 549	72%
Other	1 487 000	13 210 542	6 605 271	731%
Total	243 341 000	285 582 316	90 931 818	37%
Expenditure				
Employee related cost	60 352 000	59 099 120	35 620 869	59%
Councillors remuneration	6 243 000	6 161 142	3 443 387	55%
Bulk purchases water	500 000	3 500 000	3 273 248	655%
Bulk purchase electricity	36 223 000	36 223 000	16 439 194	45%
Depreciation	70 995 000	35 497 500	35 497 500	51%
Debt impairment	33 020 000	43 234 190	0	0%
Finance charge	2 800 000	2 800 000	694 812	25%
Other expenditure	70 702 000	136 537 364	33 378 837	47%
Total	280 835 000	323 052 316	128 347 847	46%

7.3 Analysis of revenue and expenditure

In terms of the Revenue, the municipality's performance is at average of 37% this include the operational grants of R59 507M .

Expenditure on budget shows an average of 46%, of which Electricity bulk purchases at 655% which is extremely over the budgeted figure and water at 45%.



In terms of Operating Expenditure, special attention is also required to be focussed at the salaries budget both Employee Related cost at 59% and Remuneration of Councillors at 55% respectively. This simply means the municipality will exceed their salaries budget when checking the financial performance.

7.4 Cash-flow forecast

Description	July 000	August 000	September 000	October 000	November 000	December 000
Total Cash Receipts	33 727	4 917	12 672	7 089	45 875	13 028
Total Cash Payments	16 497	24 125	18 915	16 960	14 899	25 487
Net Increase/ Decrease	17 231	-19 097	- 6 000	-9 871	30 976	-12 459
Cash at Month/year Begin:	8 656	25 887	6 790	790	- 9 082	21 894
Cash at Month/year end.	25 887	6 790	789	-9 082	21 894	9 435

The cash flow forecast of the municipality show a stable financial only with the receipt of grants. The municipality is still having more obligations than the revenue generated.

For the first half of the financial year, the municipality was able to pay the salaries and their MIG projects.

The bank balance show a positive balance even under challenging financial constraints, a further detail on Cash and Bank illustrates the balances.



7.5 Bank and Investment

Bank	Original Capital	Interest	Movement	Balance	Maturity
Standard Bank	3 911 169	16 877	-	3 928 046	11/03/2015
ABSA	9 173 816	-	-5 673 780	3 500 036	Call
ABSA	2 700 000	-	-	2 700 000	5/1/2015
ABSA	5 400 000	-	-	5 400 000	2/2/2015
VKB	252 654	-	-	252 654	Call
VKB	120 916	-	-	120 916	Call
VKB	74 779	365	-	75 144	Call
VKB	439 085	2144	-	441 230	Call
VKB (shares)	5 000	-	-	5 000	-
Total	22 077 420	19 386	-5 673 780	16 423 026	

7.6 Municipal Bank accounts

Bank	Name of account	Closing Balance
ABSA	Banktel account	556 848
ABSA	Operating account	24 934 268
ABSA	Call Account	10 213 064
Total		35 704 179



7.7 Creditors Age analysis as at 30 June 2013

Description	0-30 days	30-60 days	60-90days	90 - 120	120-150	Total
Bulk Electricity	3300725	3 464 023	0	3 517 657	35 899 158	46 181 563
Bulk water	29 691	0	0	32 462	569 366	631 519
Loan Repayment	148 813	353 941	0	0	0	502 754
Auditor General	0	0	458 568	0	1 308 732	1 767 300
Trade Creditors	403 022	1 172 204	321 712	0	2 477 358	4 374 296
Other	1 681 413	0	0	0	2 420 266	4 101 679
Total	5 563 664	4 990 168	780 280	3 550 119	42 674 880	57 559 111

The municipality is owing Eskom R 46M as at 31 December 2014 which is a worrying factor, where the municipality needs to improve on.

7.8 Debtors and Billing

7.8.1 AGE ANALYSIS

Open balance	268,158,400.72
Billings & adjustments	11,488,125.39
Payments	3,906,303.08-
Closing balance	275,740,223.03

This represents a collection of 34 % for the month.



The debtor age analysis (end December 2014) is:

Current	11,258,389.13
30 Days	7,777,800.92
60 Days	6,460,358.09
90 Days	6,760,191.59
120 Days	5,295,028.38
150 +	238,188,454.92

Total at month end **275,740,223.03**

Registered indigents: 5451

Accounts e-mailed: 1071

7.8.2 Collection Rate

NKETOANA COLLECTION RATE - DECEMBER 2014					
Reitz	7,238,270.40	4,057,855.79	-4,264,263.68	7,031,862.51	105.09%
Petsana	93,096,312.24	2,789,525.05	-88,405.01	95,797,432.28	-3.17%
Reitz Rd	5,908,886.74	290,280.16	-127,668.05	6,071,498.85	-43.98%
Petrus Steyn	7,170,324.09	585,093.85	-732,507.32	7,022,910.62	125.19%
Mamafubedu	66,869,773.66	1,897,612.57	-46,589.14	68,720,797.09	-2.46%
Heilbron RD	533,567.93	60,144.94	-26,980.08	566,732.79	-44.86%
Lindley	4,460,165.34	391,117.09	-591,233.08	4,260,049.35	151.17%
Ntha	31,388,200.61	1,517,317.78	-167,743.18	32,737,775.21	-11.06%
Lindley Rd	2,919,284.18	206,328.23	-245,868.62	2,879,743.79	119.16%
Arlington	1,401,751.21	57,106.60	-147,012.68	1,311,845.13	257.44%
Leratswana	27,209,834.47	542,701.69	-16,959.10	27,735,577.06	-3.12%



Bethlehem Rd	1,660,085.78	52,718.54	-86,888.92	1,625,915.40	164.82%
Vrede Rd	95,139.27	1,809.87	0.00	96,949.14	0.00%
Senekal Rd	707,065.10	36,280.14	-19,767.88	723,577.36	-54.49%
Total	250 658 661.02	12 485 892.30	6 561 886.74	256 582 666.58	52.55%

The billing of the new township establishment in Ntha commenced in May 2014. The billing on the new establishments in Mamafubedu and Petsana commenced on 22 September 2014. All accounts that have access to the water and electricity networks (where applicable) are being charged the availability charges. Where no water meters are installed to monitor the usage of consumers a fixed charge of 6kl of water are being charged on the accounts of the residents. Where a waterborne sewer service is operational a fixed charge of 10kl of water are being charged per month.

Important to note is that the current outstanding debt is not caused by the poor people as they are being subsidized on their full accounts. The debt is caused by those who earn above the R2500 per month bracket and who do not want to pay. The motivation for the selected list of residents to start the collection process with is thus aimed at professional people, business, agriculture, etc. as their income is above the basic norm.

The following are some of the related aspects that are still outstanding or in process with regard to the debt collection. This also forms part of the proposed Revenue Enhancement Strategy:

- Property rates
 - ✓ The valuator indicated that until his account is paid in full that the notices to the objectors, as per relevant legislation, will not be posted until he has received all his money. The Income Section report in this regard has reference.
 - ✓ Due to the outstanding decision in relation to the property rates billing, the Income Section is continuing with the billing which is not in line with the Municipal Property Rates Act. An urgent decision is of utmost importance to rectify this matter. The Income Section report in this regard has reference.
 - ✓ The supplementary information is being submitted to the valuator the first week in October 2014 for his attention.
 - ✓ The proposed meeting with Free State Agriculture has not taken place to date. The aim of the meeting is to explain the adjustments



made with regard to the property rates billing of the 2013/2014 financial year, the possible changes with regard to the property rates and/or valuations for the current financial year, request for assistance with the addresses of the farmers which are still outstanding, the financial incentive to assist farmers if the pay their accounts up to date, etc.

- General
 - ✓ A newsletter has been drawn up by the Finance Department (Income Section) and submitted to the Communication Officer. A draft has been returned to the Income Section. The newsletter was submitted to the CFO for approval to submit to the Office of the Municipal Manager for approval for distribution. The said newsletter contains the basic changes and incentives with regard to revenue related matters.
 - ✓ Data base cleansing to ensure correctness of monthly accounts to residents is an ongoing process. The process of ensuring that all urban sites on the system do have at least a water availability charge (except where the site has no access to the main infrastructure of Council) and an electricity availability charge (where applicable) has commenced the end of September 2014. In direct consultation with Public Works Department, all other services will also be audited on the same basis.

7.8.3 Financial implications

The lower the collection percentage goes the more pressure is put on the budget and also in relation to the setting of tariffs. The increase in tariffs will most probably result in a lower collection percentage which will increase the pressure on the budget even further. The older the debt becomes the more difficult it will become to collect.

The financial solution is to ensure at first that more residents pay their accounts frequently and by the due date. The second action is to ensure that outstanding debt is collected. Both aspects will ensure a healthy cash flow which in turn will reduce the pressure on the budget and tariff increases. Once the debt collection process takes effect it will not only assist with the arrears but will also assist with the payment of current accounts.

7.8.4 Recommendations

It is recommended that:

- Note be taken of the outstanding debt and the average collection rate of approximately 34% (December 2014) and the related aspects giving clarity in this regard.



- Note be taken of the age analysis of the debtors as at 31 December 2014.
- Note be taken of the aspects currently under investigation in order to improve debt collection, including the audit of billings on all accounts.
- Note be taken of the debt collection process has commenced by 25 September 2014.
- That all the municipal parties work together to ensure the ability and prompt adherence to the legislative requirements.
- That the existing assistance to residents who cannot afford the monthly charges (indigents, repayment agreements, rebates, etc.) be promulgated to ensure that the residents who can afford it, do pay (or repay) their debt.
- Note be taken of the billing on the new township development of Ntha that has commenced in May 2014 and that the billing on the new establishments in Petsana and Mamfubedu has commenced on 22 September 2014.

7.9 Municipal Grants

FMG

This grant is spent for capacitating the BTO officials and for the interns and also to capacitate councillors.

The grant received to date is R1 600 000, R709 MIL of the previous financial year (2013/14) that was rolled over, so far the municipality has spent 50 % .

Our anticipation is to spend all of it so that it helps meet the municipality's objectives when we finalise the FAR 2015.

MSIG

This Grant assist the municipality in improvement of the systems of the municipality, the amount that was received by the municipality is R890 000, there's a 38% expenditure in this regard.

MIG

The amount that was received for this year was R34 018 000, plus R5 300 677 of the previous financial year. Total MIG spent as 30 June 2013 equals to R 28 349 315 which makes 72% of the total amount received. The amount as at 30 June is not the final figure as the PMU unit is still busy finalising the figure for the month of June 2013.

**EPWP**

This grant is the initiation by government to assist its communities to create jobs, the amount received to date is R773 000 and amount spent to date is R 582 632 which makes 75% of the amount spent.

INEG

This Grant is used to help the municipality to improve their electricity in infrastructure.

The amount received to date is R4 300 000 and the amount spent is R1 999 281, which makes a percentage of 46%

7.10 CONCLUSION

This Document represents Nketoana Municipality's detailed report back to residents and stakeholders of Nketoana, on the municipal performance over the first six months on the 2014/2015 financial year. This report provides a lens through which scrutiny of the progress and performance of the municipality can be made in terms of assessing achievements in efforts to realize the objectives as set by Municipal Council. As such, this report not only reflects on milestones and challenges experienced, but also on the ongoing commitment to progressively deepen accountability to residents of Nketoana Local Municipality.

7.11 QUALITY CERTIFICATE

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Print Name: L.I Mokgatlhe

Municipal Manager
Nketoan Local Municipality, FS 193

Signature: _____

Date: _____