



**2018/2019**

**MID YEAR BUDGET AND  
PERFORMANCE ASSESSMENT  
REPORT**

## **CONTENTS:**

### **PART 1**

- 1.1 Mayors report
- 1.2 Resolutions
- 1.3 Executive summary
- 1.4 In-year budget statement tables

### **PART 2**

- 2.1 Debtors analysis
- 2.2 Creditors analysis
- 2.3 Investment portfolio analysis
- 2.4 Allocation and grant receipts and expenditure
- 2.5 Councillor and board member allowances and employee benefits
- 2.6 Material variances to the service delivery and budget implementation plan
- 2.7 Capital programme performance
- 2.8 Other supporting documents
- 2.9 Municipal manager's quality certification

## **PART 1**

### **1.1 Mayors Report**

- Mayors report to be tabled in the meeting.

## 1.2 Resolutions

### ***Section 72 mid-year budget and performance assessment resolutions***

- Hereunder are the resolutions in terms of the Municipal Budget and Reporting Regulations which are required to be considered by Council.
  1. **THAT** the Mid Term Budget Assessment as required in terms of Section 72 of the MFMA be noted.
  2. **THAT** acting in accordance with S72 (3) (a) the Accounting Officer hereby recommends to Council that an Adjustments Budget in terms of S28 of the MFMA is necessary.
  3. **THAT** the findings and recommendations as outlined in the executive summary of this report be dealt with during the Adjustments Budget process.
  4. **THAT** the Adjustments Budget referred to above be tabled to full Council by no later than 28<sup>th</sup> February 2019.
  5. **THAT** the Budget and Treasury Office appreciates the support received from all Business Units during the compilation of the mid-year budget assessment report.

## 1.3 Executive Summary

### Budget implementation overview

#### **Implementation of the 2018/2019 annual budget**

The 2018/2019 annual budget is implemented in accordance with the Municipal budget and Reporting Regulations and also within the Council approved budget as tabled at Council meeting in May 2018.

#### **The municipality mSCOA compliance status**

The municipality is committed in ensuring that is full complied will mSCOA requirement. However, the approved 2018/2019 A Schedule annually budget has not been full aligned with the data strings submitted to National Treasury, however the Council also to note that this challenge is faced by all municipalities across the country.

In trying to address such issue, National treasury offered the municipalities the opportunity to correct data string to be in line with the council approved A Schedule by 12 October 2018 should the financial system configured in a way that the changes can be effected or if not then the correction be done during the adjustment budget stage, in such cases the municipalities were advised to inform the National Treasury and Provincial Treasury respective in written of their intention to correct the data string via an adjustment budget.

Due to material changes that were required to correct the data strings, the municipality opted to write to National Treasury requesting that such correction be effected in terms of section 28 of the Municipal Finance Management Act. **As a result, the adjustment budget is recommended to ensure that such corrections are effected so that the municipality do comply with the National Treasury mSCOA requirement.**

#### **Indigent Support**

The municipality has the indigent policy in place however there is no existing indigent register in place where all beneficiaries are captured to ensure that whoever benefiting is indeed qualified to be under indigent. In trying to address the matter, the municipality approached the Department of Cooperative Governance and Traditional Affairs in trying to source funding for this project. The Department has since agreed to fund the project with a condition that the municipality also co-fund project.

The council in its sitting in December 2018 agreed to contribute toward this project. Section 23(3) of the Municipal Budget and Reporting Regulation states that if the municipality receives new allocation from National or Provincial Treasury, the Mayor of the municipality must in the next Council meeting, but within 60 days of the approval of the transfer by the National or Provincial Treasury, table the adjustment budget referred to in terms of section 28(2)(b) of the MFMA in the municipal council to appropriate such additional revenue. This will require the municipality to adjust the budget to ensure that the reallocation from the approved budget to contribute towards the project as approved by the Council is done and also to recognise the allocation from CoGTA to the budget as required by the Act.

There are other votes where the budget allocated has not been utilised and in others the funds allocated are almost exhausted and therefore Council is requested to consider adjusting such votes.

### **Operating budget**

The operating budget as reflected in Table C1 of the Budget Statement Tables can be summarised as follows:

Description	2018/2019 ANNUAL BUDGET	BUDGET AS AT 31/12/2018 R'000	ACTUALS AS AT		Variance	%
			31/12/2018 R'000			
Total Revenue	163 975 174	74 568 000	115 621 288		41 053 288	55%
Total Expenditure	(191 571 246)	(94 747 796)	(78 874 198)		(15 873 598)	-17%
<b>Operating Surplus/deficit</b>	<b>(27 596 072)</b>	<b>(20 179 796)</b>	<b>36 747 090</b>		<b>56 926 886</b>	
Capital Transfers	29 267 000	12 030 000	19 806 093		7 776 093	
<b>Surplus for the year</b>	<b>1 670 928</b>	<b>(8 149 796)</b>	<b>56 553 183</b>		<b>64 702 979</b>	

The above table shows that as at Mid-term review assessment, the municipality has performed very well exceeding the budgeted revenue by R41.1million (R115,6 Million-R74,6 Million) and the reasons for this variance follows below.

On the other hand, the actual expenditure of the municipality for Mid-term review assessment has shown a negative variance of R15,9 Million (R94,7

Million-R78,9 Million) due to different reasons which will be discussed more in detail later in this report.

For the purposes of this report, the operating budget will be discussed under the following broad headings:

- Revenue
- Expenditure

The following table c4: financial performance reflects the overall financial performance as at 31 December 2018

**TABLE C4: FINANCIAL PERFORMANCE**

KZN293 Ndwedwe - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

Description	Ref	Budget Year 2018/19								
		2017/18 Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
<b>R thousands</b>										
<b>Revenue By Source</b>										
Property rates		13 668	15 731		131	13 713	7 866	5 847	74%	15 731
Service charges - electricity revenue								-		
Service charges - water revenue								-		
Service charges - sanitation revenue								-		
Service charges - refuse revenue								-		
Service charges - other								-		
Rental of facilities and equipment		641	426		28	221	213	8	4%	426
Interest earned - external investments		10 484	12 500		819	4 765	6 252	(1 487)	-24%	12 500
Interest earned - outstanding debtors		695	786		-	263	396	(133)	-34%	786
Dividends received								-		
Fines, penalties and forfeits								-		
Licences and permits					1	1		1	#DIV/0!	
Agency services								-		
Transfers and subsidies		123 976	134 412		38 843	95 809	59 781	36 028	60%	134 412
Other revenue		112	120		63	850	60	790	1316%	120
Gains on disposal of PPE								-		
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>149 577</b>	<b>163 975</b>	<b>-</b>	<b>39 886</b>	<b>115 621</b>	<b>74 568</b>	<b>41 053</b>	<b>55%</b>	<b>163 975</b>
<b>Expenditure By Type</b>										
Employee related costs		35 407	62 307		4 093	24 395	30 113	(5 718)	-19%	62 307
Remuneration of councillors		17 011	14 324		1 261	7 699	7 164	535	7%	14 324
Debt impairment		2 372	2 600		766	766	1 302	(536)	-41%	2 600
Depreciation & asset impairment		17 760	20 000		8 868	8 868	10 000	(1 132)	-11%	20 000
Finance charges		117						-		
Bulk purchases								-		
Other materials		104						-		
Contracted services		34 003	41 046		8 887	33 265	27 023	6 242	23%	41 046
Transfers and subsidies		1 620	13 000		601	2 476	-	2 476	#DIV/0!	13 000
Other expenditure		36 103	38 294		1 426	11 040	19 146	(8 106)	-42%	38 294
Loss on disposal of PPE		633						-		
<b>Total Expenditure</b>		<b>145 131</b>	<b>191 571</b>	<b>-</b>	<b>25 901</b>	<b>88 508</b>	<b>94 748</b>	<b>(6 240)</b>	<b>-7%</b>	<b>191 571</b>
<b>Surplus/(Deficit)</b>										
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		4 446	(27 596)		13 984	27 114	(20 180)	47 293	(0)	(27 596)
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions)		32 678	29 267		155	19 806	12 030	7 776	0	29 267
Transfers and subsidies - capital (in-kind - all)								-		
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		<b>37 124</b>	<b>1 671</b>	<b>-</b>	<b>14 140</b>	<b>46 920</b>	<b>(8 150)</b>			<b>1 671</b>
Taxation								-		
<b>Surplus/(Deficit) after taxation</b>		<b>37 124</b>	<b>1 671</b>	<b>-</b>	<b>14 140</b>	<b>46 920</b>	<b>(8 150)</b>			<b>1 671</b>
Attributable to minorities										
<b>Surplus/(Deficit) attributable to municipality</b>		<b>37 124</b>	<b>1 671</b>	<b>-</b>	<b>14 140</b>	<b>46 920</b>	<b>(8 150)</b>			<b>1 671</b>
Share of surplus/ (deficit) of associate										
<b>Surplus/ (Deficit) for the year</b>		<b>37 124</b>	<b>1 671</b>	<b>-</b>	<b>14 140</b>	<b>46 920</b>	<b>(8 150)</b>			<b>1 671</b>

## **Discussion**

### **Revenue**

The Second Quarter Budgeted Operating Revenue for 2018/19 was R74,6Million. The actual revenue recognised as at 31 December 2018 amounts to R115,6Million, 5m which implies that the municipality has realised a positive variance of approximately R41, 1million in revenue.

The reasons for the variances will be discussed with reference to Table C4 of the Budget Statement Tables, and is explained as follows:

#### ***Property rates***

- Property Rates reflect a positive variance of R5, 8million as at the end of December 2018.
- This positive variance is due to councils' approved Rates Policy which allows the ratepayers the option of paying their rates on an annual basis, as a result many ratepayers chose to settle their accounts in advance.
- To ensure that the actuals speak to Year to Date Budget, the Year to Date Budget has to be revised during the adjustment budget as a result the property rates variance is expected to decrease after the adjustment budget.

#### ***Interest earned - external investments***

- The Interest earned - external investments revealed a negative/under collection of R1,5 million. It must be noted that the municipality is only recognising the interest on the investment once the investment reaches its maturity date.
- As at 31 December 2018 only R4,8million that was recognised, however it is anticipated that once other investments reach their maturity date, the interest will be recognised and the variance will be eliminated.
- Council should note that in as much as the actual recognition is below what was anticipated as at 31 December 2018, the municipality is optimistic that the entire budget will be realised by the end of the financial year as a result no adjustment will be effected in this revenue category unless the circumstances change prior to adjustment budget approval.



### ***Interest earned - outstanding debtors***

- Interest earned - interest is charged on outstanding consumer accounts, as at 31 December the municipality billed R0,3 million which is below by 34% of anticipated budget of R0,4 million.
- Council should note that even though this variance is not significant, further analysis will be conducted in this revenue category to determine if the adjustment is necessary or not.

### ***Transfers and subsidies***

- Transfers and Subsidies show a positive variance of R39,0 million as at 31 December 2018. This positive variance is due to equitable share grant being received in advance of the anticipated timing.
- To ensure that the actuals speaks to Year to Date Budget, the Year to Date Budget has to be revised during the adjustment budget as a result the variance is expected to decrease after the adjustment budget.

### ***Other revenue***

- Other expenditure shows an over collection of R0,8 million as at the end of December 2018.
- This variance is as a result of insurance refund that has been received by the municipality which was not budget for and the budget will be brought in during the adjustment budget which will subsequently reduce the variance.
- Another reason that contributed to this variance is in relation to administration handling fee that relate to the money received from Department of Transport for the payment made by the municipality to School Kids attendances. The municipality will have to decide on the correct accounting treatment for this transaction thereafter make necessary changes during the adjustment budget.
- Therefore, it is anticipated that once the budget for insurance refund has been brought in and the decision regarding the treatment of funding from Department of Transport has been made the variance will reduce as a result this positive variance will continue until adjustment budget time.

### ***Focus areas on revenue***

- Co-operative Governance and Traditional Affairs transferred R3million to support the municipality to develop credible indigent register as discussed above.
- The year to date budget for all revenue category will have to be revised to reflect more realistic estimate.
- Provision for Hall hire and TLB hire will have to be made during adjustment budget.

### **Operating Expenditure**

The Second Quarter Budgeted Operating Expenditure for the 2018/19 financial year was R94,7 Million. The actual expenditure recognised as at 31 December 2018 was R78,9 Million which implies that the municipality has realised a negative variance of approximately R15,9 million in expenditure.

The reasons for the variances will also be discussed with reference to Table C4 of the Budget Statement Tables, and are explained as follows:

#### ***Employee related costs***

- The employee related costs shows a negative variance or savings of almost R5,7 m as at the end of December 2018. Delays in filling the budgeted posts as well as resignation of employees remain the main contributing factors into this variance.
- The Human Resource Section is working tirelessly in ensuring that all budgeted posts are filled as soon as possible to ensure that services delivery is not compromised due to personnel capacity constraints.
- However, the Employee related costs will have to be adjusted downwards by the amount equivalent to unfilled posts for the past six months of the financial year.

#### ***Remuneration of councilors***

- The Remuneration of councilors shows an overspending of R0,5million as at 31 December 2018. This variance is due to the

misallocation on the item level for traveling claims from councilors, Payroll section together with the payroll service provider will correct this misallocation before the end of the third quarter.

- As a result, it is anticipated that once that error is corrected the variance will reduce.

### ***Debt impairment***

- Debt Impairment shows a negative variance of R536 thousands as at the end of December 2018. GRAP requires the municipalities to budget for non-cash items during the budget stage so that should the necessity to write off any debtor, the municipality does not incur any unauthorised expenditure as a result a budget was made available to take of such circumstances.
- Debt impairment as at the end of December 2018, is 41% of the amount budgeted for the year.
- Should Council decide to write off any debtors in future this will affect this budget which will subsequently reduce the variance.

### ***Depreciation & asset impairment***

- Depreciation and asset impairment shows a negative variance of R1.1 million as at 31 December 2018.
- This variance is due to some assets that were anticipated to have been purchased / completed by this time but unfortunately they have not been purchased or completed and transferred to assets so that they may be depreciated.

### ***Contracted services***

- Contracted Services shows an overspending of almost R6, 2million as at 31 December 2018 when compared to targeted budget. However, the council to note that this target is based on the approved budget with error due to item level where some of the projects that were supposed to be on contracted service expenditure category were misallocated to other expenditure category as a result the budget on the financial system was not aligned to the approved budget on the A Schedule.
- This error will be corrected during the adjustment budget as a result it is expected that the variance will be eliminated after the adjustment budget.

### ***Transfers and subsidies***

- Transfers and subsidies revealed an overspending of R2,5 million as at 31 December 2018 when compared to the approved year to date target. Included in this expenditure category is the Electrification in four wards within the municipality which are subsidies by the municipality and also funded by INEP grant.
- During the annual budget stage, no monthly target that was set aside for these projects and this has since been identified as an error that occurred during the annual budget which will need to be corrected using section 28 (2)(f) of the Municipal Finance Management Act as a result it is anticipated that once this error has been corrected (which will be after the adjustment budget) the variance will reduce.

### ***Other expenditure***

- Other expenditure shows an underspending of almost R8,1 million as at 31 December 2018 when compared to targeted budget, however the Council to note that this target is based on the approved budget with error due to item level where some of the projects that were supposed to be on contracted service expenditure category were misallocated to other expenditure category as a result the budget on the financial system was not aligned to the approved budget on the A Schedule.

- This error will be corrected during the adjustment budget in terms of section 28 (2)(f) of the Municipal Finance Management Act as a result it is expected that the variance will be eliminated after the adjustment budget.

***Focus areas on expenditure***

- Given that the above analysis is conducted as per the C4 categories there may be further line items which exhibit significant variances.
- The highest risk factors are those line items which may be overspent by the financial year end if the current expenditure trend continues.
- The emphasis will have to be on indigent register vote where the internal funding will have to be identified and transfer to this project as approved by the council in its sitting in December 2018 which amount to just above R3 million.
- Fuel and oil vote also indicates some challenges due to the high prices of fuel in the past five months than anticipated. The estimated R1million increase in this vote is proposed to ensure that the service delivery is not disturbed due to fuel issues.
- The municipality has applied to CoGTA for council remunerations increases of 4% as from 1 July 2018, should the MEC for COGTA agrees to the request, the municipality has adequate budget to cover this increase in its budget.

## **Capital budget**

- Reference is made to Part One – (C Schedule Table C5) for a detailed breakdown of amounts pertaining to the capital budget, per Department.
- The municipality has the following seven Departments for the purposes of budget reporting:
  - Executive and Council
  - Municipal Manager
  - Corporate Services
  - Budget and Treasury Office
  - Economic Development and Planning
  - Community Services
  - Technical Services
- The municipality approved R71, 5Million as a capital budget in the current financial year, with the majority of the funding being allocated towards road, infrastructure projects and community Services projects such as Sport fields and Community Halls.
- The capital expenditure report is based on Table C5 which is a prescribed format required by National Treasury and it is categorised by municipal vote and standard classification. The Capital Budget is funded by the following funding sources:

Government Grants

Internally generated funds

## CAPITAL BUDGET FUNDING SUMMARY

Vote Description	Budget Year 2018/19							Full Year Forecast
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
<b>R thousands</b>								
<b>Total Capital Expenditure - Functional Classification</b>	<b>71 491</b>	<b>-</b>	<b>1 146</b>	<b>15 748</b>	<b>35 466</b>	<b>(19 718)</b>	<b>-56%</b>	<b>71 491</b>
<b>Funded by:</b>								
National Government	29 267		969	14 441	14 628	(187)	-1%	29 267
Provincial Government						-		
District Municipality						-		
Other transfers and grants						-		
<b>Transfers recognised - capital</b>	<b>29 267</b>	<b>-</b>	<b>969</b>	<b>14 441</b>	<b>14 628</b>	<b>(187)</b>	<b>-1%</b>	<b>29 267</b>
Public contributions & donations						-		
Borrowing						-		
Internally generated funds	42 224		176	1 307	21 108	(19 801)	-94%	42 224
<b>Total Capital Funding</b>	<b>71 491</b>	<b>-</b>	<b>1 146</b>	<b>15 748</b>	<b>35 736</b>	<b>(19 988)</b>	<b>-56%</b>	<b>71 491</b>

- The above table illustrates how the year to date expenditure has been funded, as at 31 December 2018 the municipality spent R14,4 million on capital projects funded by grant against the year to date budget of R14,6 million which implies that the municipality is almost on par on grant funded project.
- However, on the other side, the municipal internal funded projects have shown a significant low expenditure when compared to what was set aside to be spent by December 2018. The municipality planned to spend R21,1million by the mid-term period however only R1,3million has been reported as at 31 December 2018 which is 94% negative variance. The reasons for this low expenditure will be explained later in this report.

## EXPENDITURE PER STANDARD CLASSIFICATION

The table below provides a budget versus expenditure as per the standard classification Table C5 of the in-year reports. Based on this table, as at 31 December 2018 council has spent R 15, 7million of the year to date budget of R35, 9Million.

Vote Description	Budget Year 2018/19							Full Year Forecast
	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
<b>R thousands</b>								
<b>Capital Expenditure - Functional Classification</b>								
<b>Governance and administration</b>	1 380	-	-	419	690	(271)	-39%	1 380
Executive and council			-	-		-		
Finance and administration	1 380		-	419	690	(271)	-39%	1 380
Internal audit						-		
<b>Community and public safety</b>	5 270	-	150	216	2 634	(2 418)	-92%	5 270
Community and social services	4 970		150	216	2 484	(2 268)	-91%	4 970
Sport and recreation	300				150	(150)	-100%	300
Public safety						-		
Housing						-		
Health						-		
<b>Economic and environmental services</b>	34 467	-	995	14 925	17 232	(2 307)	-13%	34 467
Planning and development	4 200		26	231	2 100	(1 869)	-89%	4 200
Road transport	30 267		969	14 695	15 132	(437)	-3%	30 267
Environmental protection						-		
<b>Trading services</b>	-	-	-	188	-	188	#DIV/0!	-
Energy sources						-		
Water management						-		
Waste water management						-		
Waste management				188		188	#DIV/0!	
<b>Other</b>	30 374				14 910	(14 910)	-100%	30 374
<b>Total Capital Expenditure - Functional Classification</b>	<b>71 491</b>	<b>-</b>	<b>1 146</b>	<b>15 748</b>	<b>35 466</b>	<b>(19 718)</b>	<b>-56%</b>	<b>71 491</b>



## ***Governance and Administration – Finance & Administration***

Governance and Administration – Finance & Administration includes the following Department:

- **Budget and Treasury Office Department** with a budget of R0, 3Million to purchase Furniture, equipment and computers with an expenditure of R64 thousands reflected as at the end of the second quarter. The remaining budget for this department will be utilised in the second half of the financial year. As a result, this underspending is expected to decrease as the year progress.
- **Corporate Services Department** with a budget of R1,1 Million, and the department has managed to spend only R355 thousand against the target budget of R552 thousands as at 31 December 2018 which implies that the department underspent by 36% when compared to its half yearly anticipated budget. The items under this department are with SCM for finalisation of appointment of service providers. As a result, it is anticipated that the variance will reduce as the year progresses.
- **Community and public safety**  
Community & Social Services include the budget related to Community Services Department with a budget of R4,8 Million to procure the following items: Furniture, Office Equipment, Motor Vehicles and Buyback Centre - Structure and as at the end of the second quarter the department had only managed to spend R216 thousands against the targeted budget of R2,5 million which indicate that the department has underspent by 91% as at the end of period under review. The services of the service provider for Buyback Centre have been engaged and as a result the expenditure is anticipated to increase as the year progresses which will reduce the variance. The procurement of other items within this department is underway.