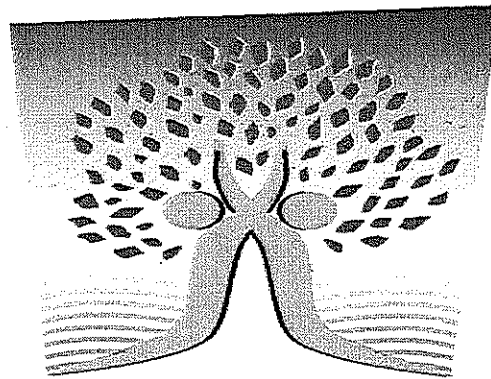


Mid-year Budget and Performance Report



! Kheis
Munisipaliteit
Municipality

Period ending 31 December 2014

*In compliance with sections 54 and 72 of the Local Government
Municipal Finance Management Act No.56 of 2003*

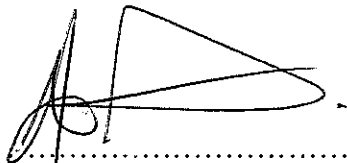
Mid-year Budget and Performance report for the period ending 31 December 2014

To: The Executive Mayor and members of the Council

In accordance with section 72 of the Local Government: Municipal Finance Management Act 2003 (the "MFMA"), I submit the required report assessing the performance of eThekweni Municipality during the first half of the 2014/15 financial year.

Section 54 of the MFMA requires that the Executive Mayor takes certain actions on receipt of this report to ensure that the approved budget is implemented in accordance with the projections contained in the Service Delivery Budget Implementation Plan (the "SDBIP").

The information contained in this report has been reviewed and it is evident that adjustments to the capital and operating budgets will be necessary. When an adjustments budget is adopted, the SDBIP will need to be reviewed and adjusted.

A handwritten signature in black ink, appearing to read 'H.T. Scheepers', written over a horizontal dotted line.

H.T. Scheepers
Municipal Manager
22 January 2015

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Glossary

Adjustments budget – Prescribed in section 28 of the MFMA. The formal means by which, a municipality may revise its annual budget during the year.

Allocations – Money received from Provincial or National Government or other Municipalities.

Capital expenditure – Spending on capital projects such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings.

DORA – Division of Revenue Act. Annual legislation that shows the total allocations made by National to Provincial and Local Government.

Equitable share – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

MBRR – Municipal budget and reporting regulations.

MFMA – Local Government. Municipal Finance Management Act (56/2003).

MTREF – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations.

Operating expenditure – The day to day expenses of the Municipality.

Rates – Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP – Service Delivery Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Vote – One of the main segments into which a budget. In Kheis Municipality this means at directorate level.

INTRODUCTION

Purpose

The mid-year report is used as a management tool to assess the Municipality's performance and financial position against the approved budget by analyzing trends and patterns for the first six months of the 2014/2015 financial year, with a view of giving effect to the Mayor and Council's oversight role and to recommend the need for an adjustment budget as envisaged by Municipal Finance Management Act.

Legal Requirements

In terms of section 72(1), (2) and (3) of the MFMA, the mid-year budget and performance assessment report for the period ended 31 December 2014, is submitted for your consideration.

In terms of the section 54 (1), (2) and (3) of the MFMA the following applies. –

(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 offices 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.

Contents of this report

This mid-year report assess the performance of the municipality during the first six months 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

In terms of Section 72 (2) the statement referred to in Section 71(1) for the six months of the financial year may be incorporated into the report referred to in subsection 1(b) of this section.

FINANCIAL PERFORMANCE

Overview of operating revenue and expenditure performance for the period July to December 2014, including capital.

The following table summarizes the overall position on the operating and capital budgets in relation to the Municipality's SDBIP. The SDBIP is a detailed plan approved by the Council in terms of section 53(1)(c)(ii) of the MFMA for implementing the Municipality's delivery of municipal services and its annual budget, and which must indicate-

(a) projections for each month of-

- (i) revenue to be collected, by source; and
- (ii) operational and capital expenditure, by vote;

(b) service delivery targets and performance indicators for each quarter; and

(c) any other matters that may be prescribed, and includes any revisions of such plan by the mayor in terms of section 54(1)(c);

Table 1: Overall position Operating and Capital budgets

NC084 Kheis	Budget 2014/15	Planned 31/12/2014	Actuals 31/12/2014	%
Operating Income	R 36 619 632	R 20 350 727	R 22 841 979	112
Capital Income	R 19 559 999	R 11 661 333	R 17 459 719	149
Operating Expenditure	R 36 598 394	R 18 299 197	R 17 696 933	-97

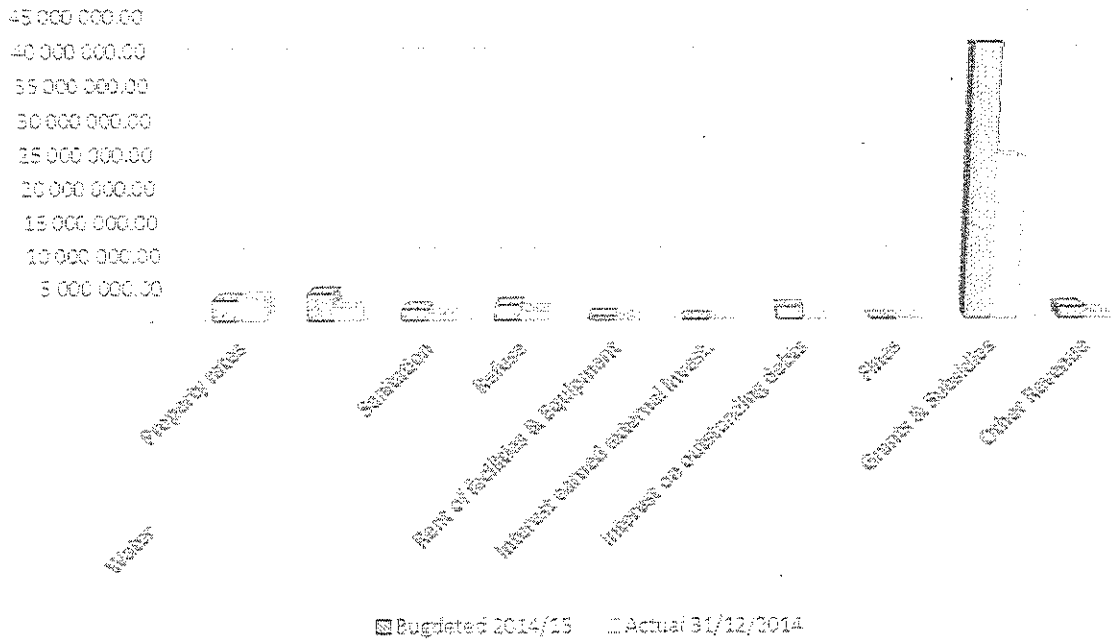
The above figures are explained in more detail below

Operating Income

Table 2: Revenue by Source

NC084 iKheis	2013/2014 Audited Outcomes	2014/15 Budget	Actuals 30/12/2014	%
OPERATING REVENUE				
Property rates	1 780 984	3 164 547	3 385 626	107
Service Charges				
Water	3 754 632	4 089 210	1 906 147	47
Sanitation	1 668 747	1 679 375	932 150	56
Refuse	2 268 775	2 297 572	1 295 050	56
Rent of facilities & Equipment	479 099	514 436	273 213	53
Interest earned external invest.	140 376	41 453	17 240	42
Interest on outstanding debts	0	1 873 301	0	0
Fines	184 744	13 966	27 153	194
Grants & Subsidies	38 977 578	40 836 999	24 338 245	60
Other Revenue	615 233	1 668 722	890 399	53
Total Operating Revenue	49 870 168	56 179 631	33 065 224	59

OPERATING REVENUE



The table above shows the actual operating income by revenue source for the first six months of 2014/2015 budget against the original budgeted operating income. Income for the first six months of the financial year amounted to R 33 065 224 (59%), it exceed the anticipated income as planned in the SDBIP with 1.13%. Total income on the planned SDBIP was R 20 350 727 for the first six months of the financial year of which R 1 424 046 was property rates. It should be noted that the figures for property rates and service charges relate to billed income (i.e. income accrued) and not actual debt collected. The actual income of R 33 065 224 for the six months are R 4 277 502 more than the anticipated income, due to the following reasons:

Property rates.

Property Rates income for the past six months is 107% against budget revenue for Property Rates for the year. Due to the fact that property rates are billed annually in August 2014, therefore the 107% represent the annual income. Furthermore the municipality met with organized agriculture and negotiations on farms has been discussed. Outstanding property rates are in process and may lead to possible adjustment on property rates policy. The impact on this needs to be investigated during the compilation of the Adjustment Budget.

Service Charges

Sanitation and refuse charges are represented by a monthly fixed charge and are already at 56% and the budget income should therefore be adjusted.

Rent of facilities and Equipment

Rent of facilities and equipment consists of an administrative levy charged on properties not transferred to the owners yet. This is therefore a substitution levy for a loss of property rates income, however on testing these properties it was find that consumers were billed for admin levy as well as property rates. This results in duplication of income. This needs to be investigated and amend in the adjustment budget.

Fines

Fines are 194% more the budgeted projection. This is mainly result of traffic fines over which the municipality has no control. This will be corrected during the compilation of the Adjustment Budget.

Interest earned external investments

Expected income for external investments is less than the amount budgeted for. This is mainly result of an effective Capital Investment Program, as Council succeeds to stay within grant conditions, hence a decrease in unspent grants.

Interest earned on outstanding debtors

Interest earned on outstanding debtors had not been levied against the debtors. Council made a decision that no interest will be charged on outstanding debtors. This will have a serious impact on the 2014/2015 budget as the decision represents a loss of income of less than R 2 million. Alternative income should be identified or expenditure should decrease of this amount. Management is currently in process of investigating and cleansing all long outstanding debtors.

Other revenue

Included in other revenue are revenue income relating to the sale of stands. According to General Accepting Accounting Practices this is incorrect as these stands form part of the municipality's fixed assets. Therefore only profits or losses (Gain or loss after deduction of the value reflected in the FAR) should be reflected in the income statement. Budget needs to be revised.

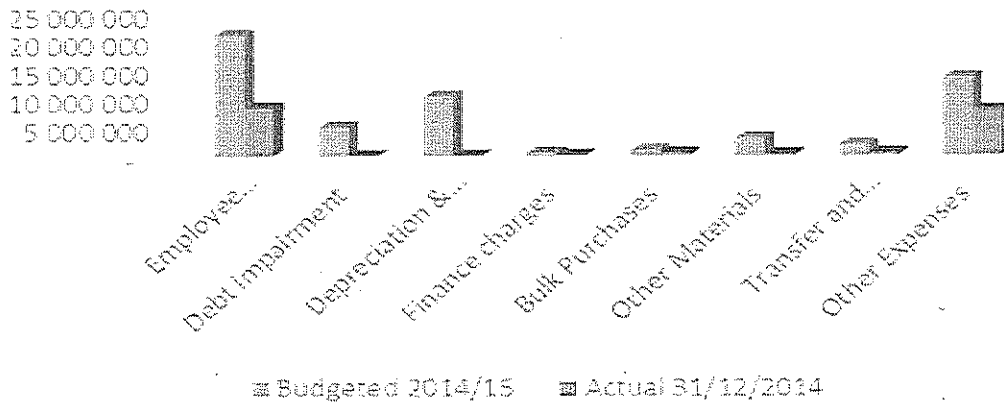
Operating Expenditure

The following table shows the actual operating expenditure for each Department against that planned in the SDBIP for the first six months of 2014/15 financial year.

Table 3. Operating Expenditure by type

NC084 Kheis	2013/14 Audited Outcomes	2014/15 Budget	Actuals YTD	%
Operating expenditure by type				
Employee Related Costs	13 425 823	20 910 136	8 271 528	40
Debt impairment	12 919 458	4 926 000	0	0
Depreciation & assets impairment	14 665 905	10 282 199	0	0
Finance charges	319 608	581 042	159 881	26
Bulk Purchases	897 827	899 267	557 556	62
Other Materials	664 788	3 063 397	333 617	11
Transfer and grants	1 679 947	1 904 814	505 646	27
Other Expenses	15 417 586	13 591 539	7 868 705	58
Total Direct Operating Expenditure	59 990 942	56 158 393	17 696 933	32

OPERATING EXPENDITURE



The above table shows that the expenditure of 32% for the first six months is 18% lower than the expected expenditure of 50% as planned in the SDBIP. The main reason for the understatement is due to Debt impairment and Depreciation & assets impairment.

Debt impairment

Debt impairment as a Key Performance Indicator is the review of irrecoverable debt and a compilation of a report to council for the write-off of irrecoverable debt. We are in process of tabling a report on the review of irrecoverable debts together with council's credit control and debt collection policy, to assist Council in the write off of the irrecoverable debts.

Depreciation and debt impairment

Depreciation and debt impairment is the impairment of assets in terms of the usage of their useful life. We are in the process of implementing internal controls to ensure that this can be accounted for on a monthly basis instead of annually as per treasury requirements.

Finance charges

The reason for the understatement of finance charges is due to the fact that only the finance charge for the first quarter has been captured and misallocations of lease payments. This needs to be investigated and adjusted in the revised budget.

Other Materials

Other materials represent repairs and maintenance. As the Council do not currently make use of a long term maintenance plan, maintenance expenditure are limited to break downs. With the implementation of the new asset management program, maintenance plans will be available and maintenance expenditure should be executed and budget for accordingly. (Preventive actions)

Transfer and grants

Transfer and grants represent the indigent subsidy funded from the Equitable share. Only 27% has been spent on subsidy's for the first six months. Council needs to investigate whether all indigent in the !Kheis area has been registered and do receive free basic services on a monthly basis. If not, this will have a serious impact on the recoverability of debtors of !Kheis Municipality.

Capital Expenditure

Table 4. Capital Expenditure and source of finance

NC084 !Kheis	2014/15 Budget	Actuals YTD	%
<i>CAPITAL EXPENDITURE</i>			
Water	7 726 000	10 021 748	130
Sanitation	4 516 096	1 427 186	32
Refuse	0	0	0
Other	7 317 903	6 010 785	82
<i>Total Capital Expenditure</i>	19 559 999	17 459 719	89
<i>SOURCE OF FINANCE</i>			
External Loans	0	0	0
Internal contributions	0	0	0
Grants and Subsidies	19 559 999	17 459 719	89
Other	0	0	0
<i>Total Financing</i>	19 559 999	17 459 719	89

The approved capital budget amounts to R 19 599 999. The actual capital expenditure amounts to R17 459 719 (89%) for the past six months of the 2014/2015 financial year. !Kheis Municipality applied for funding on the water reticulation project from Coghta. These business plans in the amount of R 7million has been approved. These amounts have not been included in the capital budget and needs to be rectified in the revised budget.

The approved SDBIP contain no information on when capital expenditure will take place during the year. Management should compile a Procurement Plan, which will assist the municipality to properly plan for the implementation of the capital budget.

Bank and cash book balances

The bank balance according to the bank statement reflects the actual bank balance of the Municipality at a specific date, where-as the cash book balance is the difference between the total accumulated cash receipts (income) up to a given date and the total accumulated cash payments (expenses) up to the same date. The cash book balance is, therefore, the true reflection of what the bank balance should be had all transactions been processed by the Municipality’s financial system (SAMRAS).

Bank reconciliations have been prepared on a monthly basis. Failure to reconcile may lead to misleading financial reporting which can result into inappropriate Council decisions.

The Municipality’s bank account open with a positive balance of R 53 725.84 on 1 July 2014 and closed with a positive balance of R 140 482.65 on 31 December 2014.

The cashbook balance was R 53 725.84 on 01 July 2014. The cashbook balance as on 31 December 2014 amounts to R -61 196.21.

Debtors age analysis

The debtors outstanding on 1 July 2014 were R 38 666 266. The amount outstanding increased by R 1 880 451 or 5% during the first six months of the current financial year. During this time debtors to the amount of R 5 276 236 were write off, without this write –off debtors would have increased by R 7 156 687. Total revenue from billings for the same period amounted to R 7 792 186 which result in a payment percentage of less than 10%.

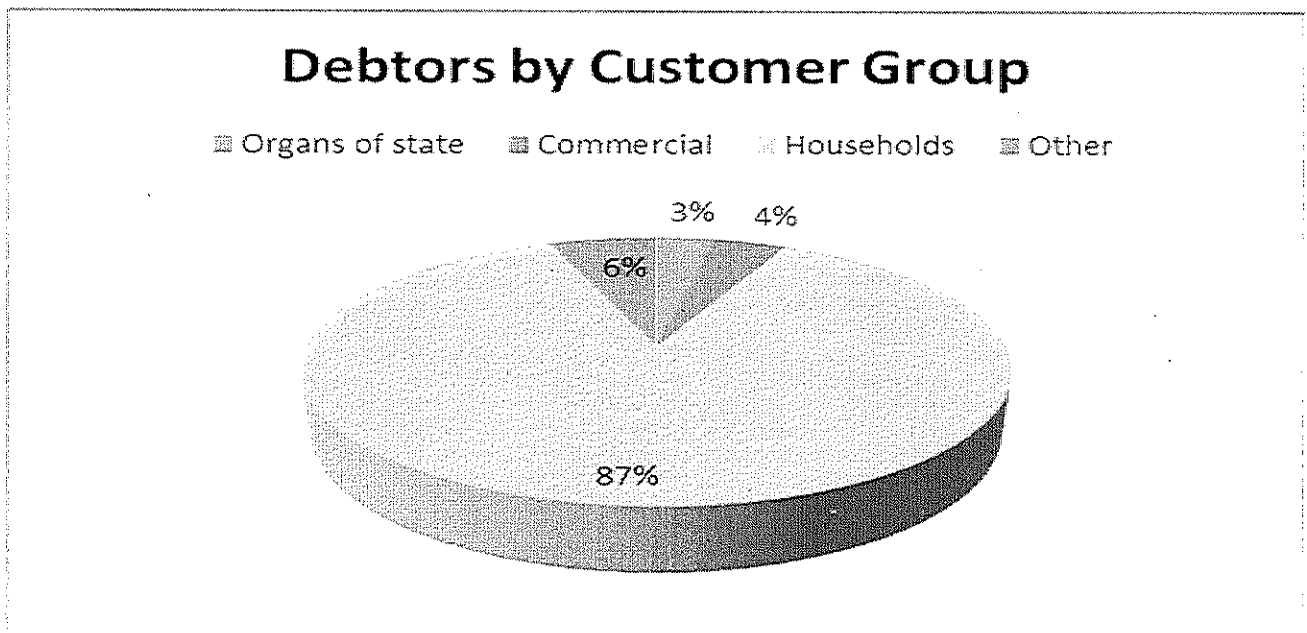
The following table shows the detailed Debtors Age Analysis at the end of the reporting period on 31 December 2014

Table 5. Debtors age analysis by income source

DC iKheis DEBTORS BY INCOME SOURCE	0-30 Days		31-60 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Water	468 001	98	191 100	47	14 501 036	34	15 160 137	58
Sewerage	175 250	0.7	110 149	16	6 723 531	15	7 008 930	9
Refuse	245 548	0.9	171 601	26	9 689 883	21	10 107 032	13
Rates and other taxes	332 830	0.2	34 708	6	7 903 080	15	10 107 032	10
Total	1 221 629		507 558		38 817 530		40 546 717	

Table 6: Debtors age analysis by customer group

DC !Kheis DEBTORS BY CUSTOMER GROUP	0-30 Days		31-60 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Organs of state	40 715	0.3	30 133	11	1 358 448	3.1	1 429 296	58
Commercial	257 696	1.0	52 462	12	1 532 298	3.3	1 842 456	9
Households	963 348	97	453 166	31	38 747 802	27.8	40 164 316	13
Other	9 080	1.7	9 475	46	2 692 240	65.8	2 710 795	10
Less: VAT	-49 210		-37 678		-5 513 258		-5 600 146	
Total	1 221 629		507 558		38 817 530		40 546 717	



The tables above shows that at the end of December 2014, 38% of the debtors is outstanding for 0-30 days, 1% for 31-60 days and 61% are outstanding for longer than 90 days and over. Management must ensure that debtors were managed more properly. Council therefore seriously needs to address this concern and institute strict credit control measures in order to survive and to continue service delivery.

The number of registered indigent amounts to 901 at the end of December 2014.

Creditors' analysis

The Creditors analysis is a reflection of outstanding creditors not paid within 30 days as prescribe by the MFMA. Outstanding creditors as on 31 December 2014 amounts to R 3 918 659

Table 7. Creditors age analysis

DC !Kheis CREDITORS	0-30 Days		31-60 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Trade Creditors	19 939	8.89	33 981	10.50	3 084	0.09	57 003	1.45
Auditor General	42 767	19.06	84 333	26.07	2 890 572	85.75	3 017 672	77.01
BYTES Integrated Systems	49 099	21.88	62 257	19.24	378 943	11.24	490 300	12.51
Agrico	497	0.22	1924	0.59	15 829	0.47	18 250	0.47
BGWV	80 873	36.05	80 859	24.99	7 742	0.23	169 475	4.32
Gemsbok			1 788	0.55	11 506	0.34	13 294	0.34
Halsted	12 772	5.69	20 720	6.40	5 140	0.15	38 632	0.99
KLK			16 378	5.06	13 394	0.40	29 772	0.76
Konica Minolta			9 017	2.79	2 544	0.08	11 561	0.30
PA Stationers	1 450	0.65			6 024	0.18	7 474	0.19
Pathcare	4 810	2.14			11 635	0.35	16 445	0.42
TGIS	11 512	5.13	11 512	3.56	11 512	0.34	34 535	0.88
Thyron			16.83	0.01	1 010	0.03	1 026	0.03
Web Ateljee	636	0.28	630	0.19	9 478	0.28	10 745	0.27
URB			132	0.04	2 343	0.07	2 475	0.06
Total	224 354	100	323 547	100	3 370 758	100	3 918 659	100

The reasons for the non-payment of creditors are due to a dispute of the account of the Auditor General. The municipality is in a process to resolve these disputes with the abovementioned service provider.

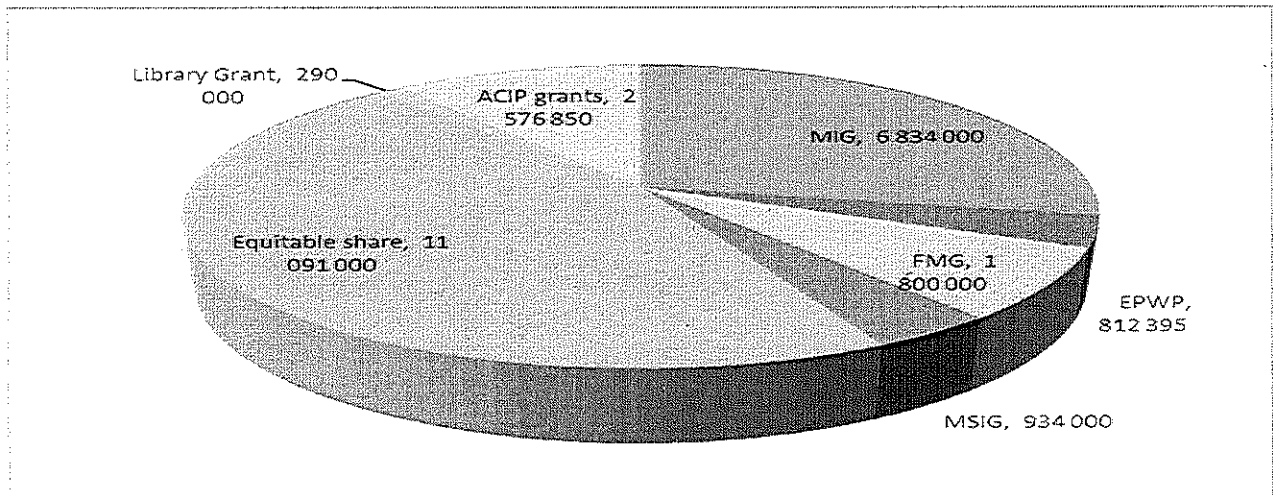
Creditors of 31 days and older amounting to R 719 398 as mentioned above are in non-compliance with the MFMA. These creditors need to be settled as soon as possible.

Conditional Grants and Subsidies

The Municipality receives grants from the State in terms of the annual Division of Revenue Act. A total amount of R 40 836 999 was allocated to the Municipality. R 24 338 245 was received during the first six months of the financial year.

Table 8: Conditional grants and subsidies

NC084 iKheis	Original Budget	Actuals YTD	%
Grants Allocation Receipts			
1 National			
MIG	15 991 999	6 834 000	43
EPWP	1 000 000	812 395	81
FMG	1 800 000	1 800 000	100
MSIG	934 000	934 000	100
Equitable share	17 963 000	11 091 000	62
2 Provincial			
Library Grant	580 000	290 000	50
3 Other grants	2 568 000	2 576 850	100
Total	40 836 999	24 338 245	60



MIG

43% of the MIG grants had been received for the past six months.

Equitable Share

The equitable share allocations are paid in three tranches to the municipality. The total amount of equitable share received amounts to R 11 091 000. The last tranche in an amount of R 6 872 000 of will be paid out during March 2015.

Library

The municipality already received the first transfer of R 290 000. The remaining 50% will be paid during March 2015.

Allocations for FMG, MSIG and DWA Funds have been paid out 100% in the first six months.

Investments portfolio analysis

The investment portfolio analysis consists of all short term deposits and investments. The investment portfolio increases from R 2 319 787 as at 01 July 2014, to R 4 024 325.82 at the end of December 2014. The municipality’s improved position resulted from more efficient cash flow management practices being put in place and other cost saving strategies amongst other factors.

Table 9: Investment portfolio analysis

DESCRIPTION	ACCOUNT NUMBER	OPENING BALANCE 01/07/2014	BALANCE AS ON 31/12/2014
MSIG/FMG	62150559486	10 338	1 019 532.50
Pula Nala	62364746986	10 176	10 215.73
MIG	62102417567	1 402 539	1 864 034.09
LOTTO	62304432123	135 591	10 581.80
Library	62304431828	10 834	235 374.25
EPWP	62364746580	15 748	207 735.21
Business Eff Rate Deposit	71129793876	80 836	76 852.24
Business Fixed Deposit	71197351979	600 000.00	600 000.000
Total investments		2 319 187	4 024 325. 82

Borrowings / Lease Agreements

The municipality has only one loan with DBSA. The DBSA account statements are only issued on a quarterly basis, and therefore the detailed information was not available at the time of compiling the report. The balance on the DBSA loan as on 01 July 2014, mounts up to R 532 312. The loan is redeemable on 31 March 2015.

Lease installments are currently disclosed as administrative costs. This needs to be re allocated, interest to finance charges and redemption to lease liability. This will be adjusted in the revised budget.

General Ledger Allocations

In compilation of the Section 72 report major errors in the general ledger came to our attention of which salaries and debtors are the biggest concern.

Salaries

Salaries for November and December 2014 have been triplicated due to error batch problems. The amount of salaries in this report is correct.

Debtors

Unreconciled differences between the debtors sub ledger and the main ledger of more than R5 million exists.

On the excell working papers in respect of the budget, votes have been renamed without the necessary changes on the SAMRAS accounting system. These problems have been reported to SAMRAS, but needs to be rectified before adjustment budget could be tabled.

Past year's Annual Report and progress on resolving problems identified in the Annual Report

Comments made by the Auditor-General in his Audit Report were encapsulated in an Audit Recovery Plan which addresses the areas of concern. Issues that are highlighted as areas of concern are the following:

- Leadership
- Financial management
- Control environment
- Asset management
- Performance management
- Internal audit
- Audit Committee

To improve audit outcomes, management must ensure that the Audit Recovery Plan is fully implemented. The implementation of the Audit Recovery Plan must be monitored on a monthly basis. This would lead to improved accountability as these results can be audited prior to producing the Annual Financial Statements for 2014/2015.

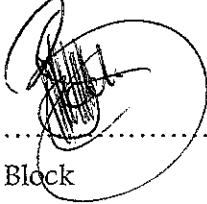
Recommendation from the Accounting Officer

After having assessed the performance of the municipality for the first half of the year ended 31 December 2014, the following is recommended:

- a) That the Mayor tables this report by 31 January 2015 together with the need to approve an adjustment budget.
- b) That the revised projections as contained in this report inform the adjustment budget.

Quality Certificate

I, Donovan Block, the Chief Financial Officer of !Kheis Municipality, hereby verify that the mid-year budget and performance assessment for the period 01 July 2014 to December 2014 has been prepared in accordance with Section 72 of the Municipal Financial Management Act and Regulations made under the Act.

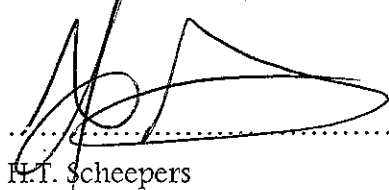


.....
J.D Block
Chief Financial Officer

..... 23/01/2015

Date

I, Hilda Teresa Scheepers, the Municipal Manager of !Kheis Municipality, hereby verify that the mid-year budget and performance assessment for the period 01 July 2014 to December 2014 has been prepared in accordance with Section 72 of the Municipal Financial Management Act and Regulations made under the Act and accordingly submit the required report on the state of !Kheis Municipality's performance.



.....
H.T. Scheepers
Municipal Manager

..... 23/01/2015

Date