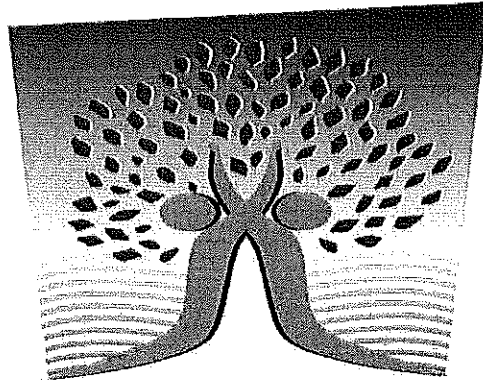


# Mid-year Budget and Performance Report



**! Kheis**  
Munisipaliteit  
Municipality

**Period ending 31 December 2015**

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

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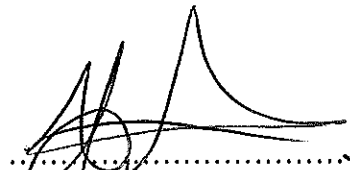
**Mid-year Budget and Performance report for the period ending 31 December 2015**

**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 !Kheis Municipality during the first half of the 2015/16 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.



H.T. Scheepers  
Municipal Manager  
23 January 2016

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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 2015/2016 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 2015, 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.

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## FINANCIAL PERFORMANCE

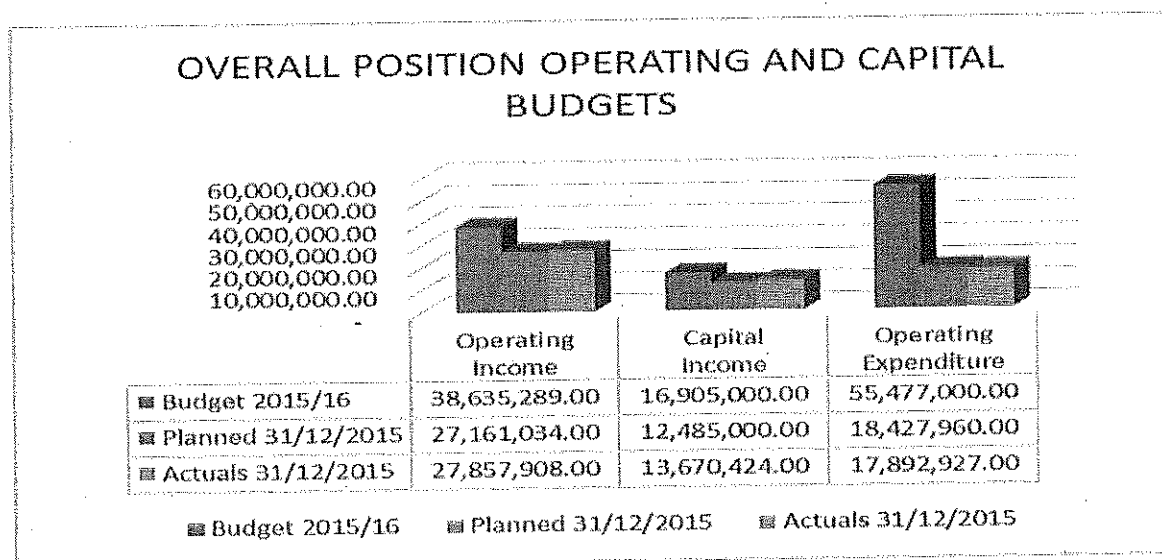
### Overview of operating revenue and expenditure performance for the period July to December 2015, including capital.

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**

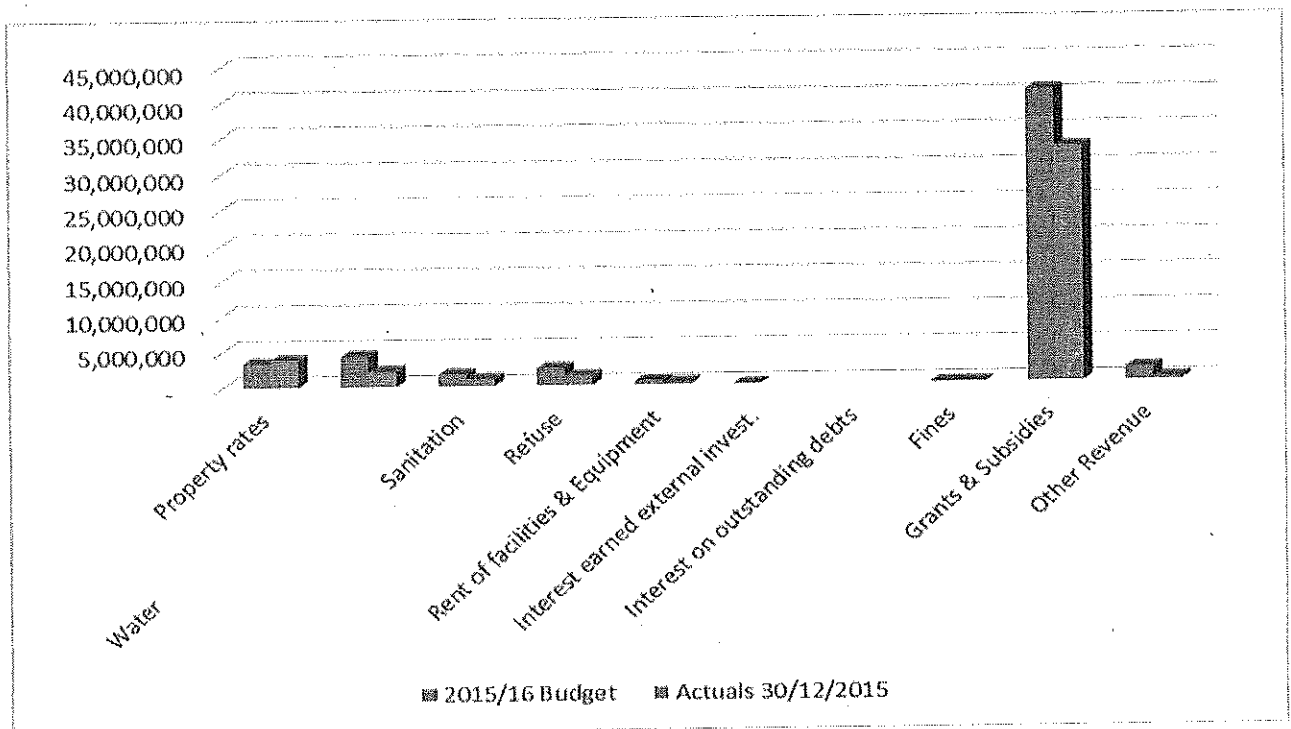
NC084 !Kheis	Budget 2015/16	Planned 31/12/2015	Actuals 31/12/2015	%
Operating Income	R 38 635 289	R 27 161 034	R 27 857 908	102,6
Capital Income	R 16 905 000	R 12 485 000	R 13 670 424	109,5
Operating Expenditure	R 55 477 000	R 18 427 960	R 17 892 927	97,1



## Operating Income

**Table 2: Revenue by Source**

NC084 !Kheis	2014/2015 Audited Outcomes	2015/16 Budget	Actuals 30/12/2015	%
<b>OPERATING REVENUE</b>				
Property rates	3 806 794	3 354 420	3 829 661	114,2
Service Charges				
Water	4 147 478	4 304 994	2 187 417	50,8
Sanitation	1 897 672	1 717 183	1 036 732	60,4
Refuse	2 575 529	2 435 182	1 359 992	55,8
Rent of facilities & Equipment	541 218	545 302	296 693	54,4
Interest earned external invest.	156 198	43 940		
Interest on outstanding debts				
Fines		4 204	29 040	690,7
Grants & Subsidies	42 021 408	41 087 000	32 374 685	78,8
Other Revenue	624 841	1 872 265	414 111	22,1
<b>Total Operating Revenue</b>	<b>55 771 139</b>	<b>55 540 289</b>	<b>41 528 332</b>	<b>74,8</b>



The table above shows the actual operating income by revenue source for the first six months of 2015/2016 budget against the original budgeted operating income. Income for the first six months of the financial year amounted to R 41 528 332, it is 124 % more than anticipated income as planned in the SDBIP. Total income on the planned SDBIP was R 33 492 478 for the first six months of the financial year including levies of R 3 896 480. 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 41 528 332 for the six months are R 8 035 854 more than the anticipated income, due to the following reasons:

*Property rates:*

Property Rates are billed annually in August, it therefore shows the expected annual income and is R 475 241 more than annual budget, and R 2 320 172 more than anticipated for first six months.

*Grants & Subsidies*

Grants and Subsidies for the past six months is R 32 374 685 and is R 2 273 352 more than amount of R 30 101 333 anticipated in SDBIP. The provision for EEDSM funding was incorrectly allocated to MIG funds in the budget.

**Table 2.1 Operating Income actually received from Rates and Services**

	<b>2015/16 Budget</b>	<b>Actuals Billed 30/12/2015</b>	<b>Actuals Received 30/12/2015</b>	<b>%</b>
<b>NC084 !Kheis</b>				
<b>OPERATING REVENUE</b>				
Property rates				
Adjustment for annual	3 354 420	1 939 830	335 190	17,3
Water	4 304 994	2 187 417	1 346 846	61,6
Sanitation	1 717 183	1 036 732	346 025	33,4
Refuse	2 435 182	1 359 992	368 814	27,1
<b>Total Operating Revenue</b>	<b>11 811 779</b>	<b>6 523 971</b>	<b>2 396 875</b>	<b>36,7</b>

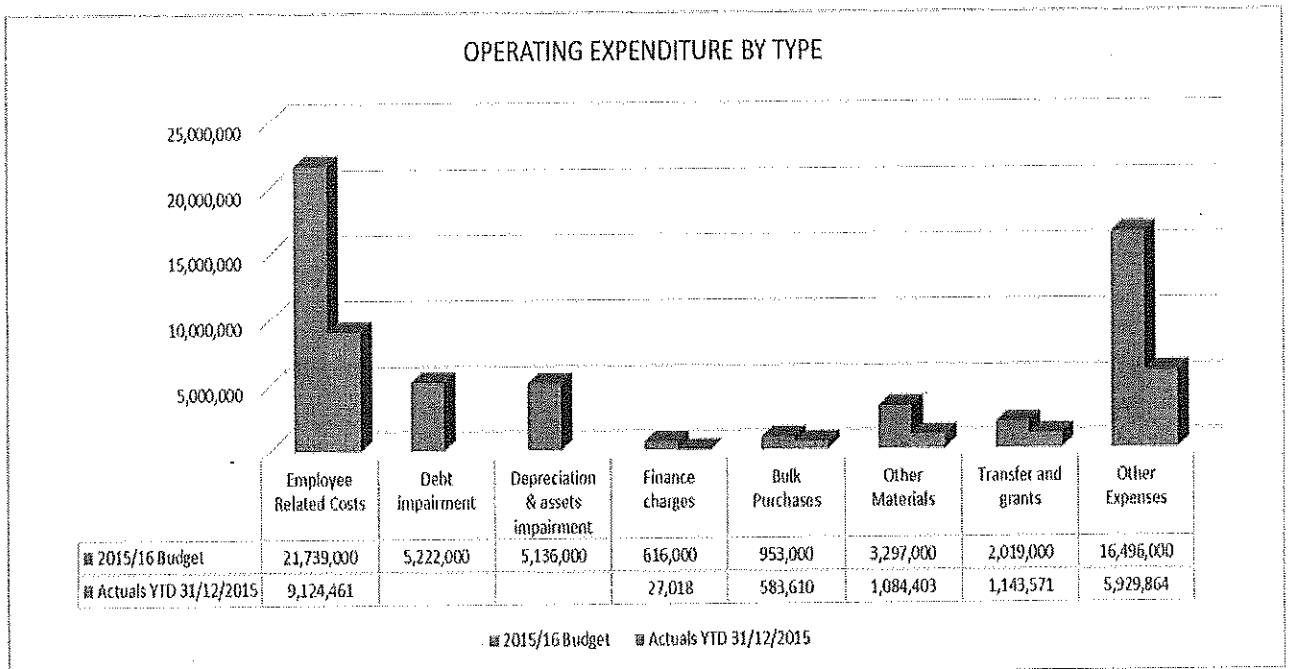
The table show the actual payments received on billed income. The low payment percentage of 36,7% is of concern as the SDBIP planned for payment percentage of 90% for rates and 50% for other services.

**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 2015/16 financial year.

**Table 3: Operating Expenditure by type**

NC084 !Kheis	2014/15 Audited Outcomes	2015/16 Budget	Actuals YTD	%
<b>Operating expenditure by type</b>				
Employee Related Costs	17 367 768	21 739 000	9 124 461	42
Debt impairment	8 674 684	5 222 000		
Depreciation & assets impairment	11 472 677	5 136 000		
Finance charges	491 105	616 000	27 018	4,4
Bulk Purchases	942 521	953 000	583 610	61,2
Other Materials	485 677	3 297 000	1 084 403	32,9
Transfer and grants	3 909 871	2 019 000	1 143 571	56,6
Other Expenses	9 019 598	16 496 000	5 929 864	35,9
<b>Total Direct Operating Expenditure</b>	<b>52 363 902</b>	<b>55 477 000</b>	<b>17 892 927</b>	<b>32,3</b>



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 should the irrecoverable debt be reviewed and reported to council for possible write-off. The amount budgeted for debt impairment was based on anticipated payment rate of 90% and 50% for rates and services respectively. Table in 2.1 clearly sets the current payment rate at 36% and should the amount budgeted for be adjusted.

**Depreciation**

Depreciation 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 finance charges were not separated from capital charges on repayment of lease assets.

### *Bulk Purchases*

The current spending of 61% needs to be investigating because it may lead to an overspending if savings cannot be made. Possible budget adjustment.

### *Other Materials*

Other materials represent repairs and maintenance. Council need to check whether the monies budgeted for Repairs and Maintenance are needed, if not adjustments should be made.

## **Capital Expenditure**

**Table 4: Capital Expenditure and source of finance**

NC084 !Kheis	2015/16 Budget	Actuals YTD	%
<i>CAPITAL EXPENDITURE</i>			
Water	10 671 000	7 667 978	71,9
Sanitation	4 234 000		
Other	2 000 000	983 649	98,4
<b>Total Capital Expenditure</b>	<b>16 905 000</b>	<b>8 651 627</b>	<b>51,2</b>
<i>SOURCE OF FINANCE</i>			
Grants and Subsidies	16 905 000	13 670 424	80,9
Other	0		
<b>Total Financing</b>	<b>16 905 000</b>	<b>13 670 424</b>	<b>80,9</b>

The approved capital budget amounts to R 16 905 000. The actual capital expenditure amounts to R 8 651 627 (51%) for the past six months of the 2015/2016 financial year. This is in line with the SDBIP and will the remaining projects be finalized within financial year. The actual income of R 13 670 424 (80.9%) is not in line with the planned SDBIP.

### **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 318 803 on 1 July 2015 and closed with a positive balance of R 3 159 436 on 31 December 2015.

The cashbook balance was R 319 011 on 01 July 2015. The cashbook balance as on 31 December 2014 amounts to R 3 120 621.

### **Debtors age analysis**

The debtors outstanding on 1 July 2015 were R 47 356 160. The amount outstanding increased



by R 7 427 848 or 15,7 % during the first six months of the current financial year. The following table shows the detailed Debtors Age Analysis at the end of the reporting period on 31 December 2015

**Table 5: Debtors age analysis by income source**

The tables above shows that at the end of December 2015, 1,5% of the debtors is outstanding for

DC !Kheis DEBTORS BY INCOME SOURCE	0-30 Days		31-60 Days		Over 60 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Water	354 468	2,3	258 218	1,7	14 810 804	96	15 423 490	28,2
Sewerage	164 119	2,2	141 213	1,9	7 196 858	95,9	7 502 190	13,7
Refuse	225 863	2	210 138	1,9	10 440 833	96	10 876 834	19,9
Rates	44 976	,4	35 088	,3	10 955 736	99,3	11 035 800	20,1
Other	43 888	,4	43 777	,4	9 858 029	99,1	9 945 694	18,1
<b>Total</b>	<b>833 314</b>	<b>1,5</b>	<b>688 434</b>	<b>1,3</b>	<b>53 262 260</b>	<b>97,2</b>	<b>54 784 008</b>	<b>100</b>

0-30 days, 1,3% for 31-60 days and 97,2% are outstanding for longer than 60 days and over. Management must ensure that debtors were managed more properly. Table 2.1 of this report indicates that the current payment percentage only stands at 36%. 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 indigents amounts to 1 085 at the end of December 2015.

#### 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 2015 amount to R 7 449 490 of witch only the Auditor General is outstanding for longer than 30 days.

**Table 6: Creditor age analysis**

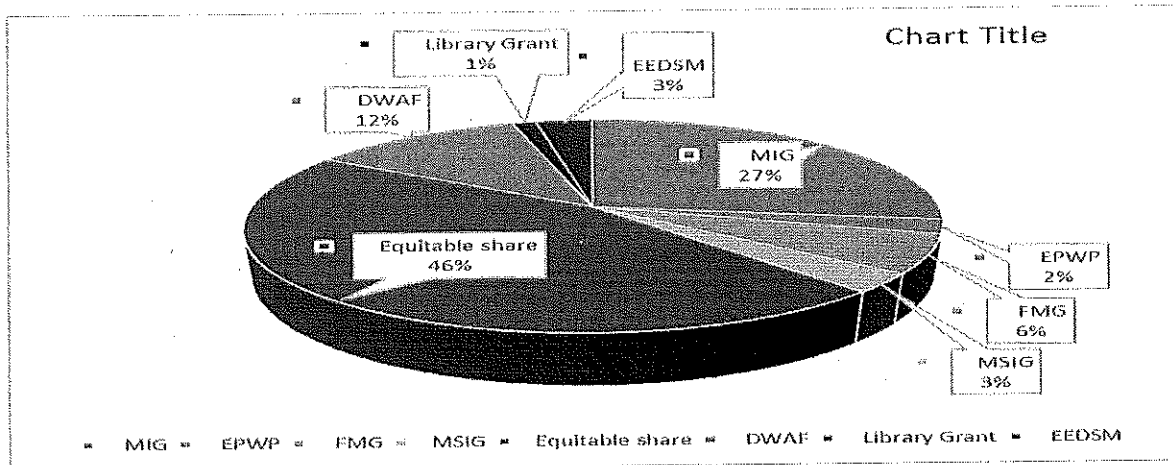
DC !Kheis CREDITORS	0-30 Days		31-60 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Auditor General	564,167	7,7	708 361	9,7	6 023 757	82,6	7 296 265	100
<b>Total</b>	<b>564 167</b>		<b>708 361</b>		<b>6 023 757</b>		<b>7 296 265</b>	<b>100</b>

The reasons for the non-payment of creditors is due to a dispute of the account of the Auditor General and National Treasury. The municipality is in a process to resolve these disputes with the relevant parties.

#### 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 42 021 408 was allocated to the Municipality. R 32 374 685 was received during the first six months of the financial year.





**Table 7: Conditional grants and subsidies**

NC084 !Kheis	Original Budget	Actuals YTD	%
<b>Grants Allocation Receipts</b>			
1 National			
MIG	10 485 000	8 872 000	84,6
EPWP	1 000 000	700 000	70
FMG	1 875 000	1 875 000	100
MSIG	930 000	930 000	100
Equitable share	19 697 000	14 773 000	75
DWAF	4 420 000	3 798 424	85,9
2 Provincial			
Library Grant	680 000	426 261	63
3 EEDSM	2 000 000	1 000 000	50
<b>Total</b>	<b>41 087 000</b>	<b>32 374 685</b>	<b>78,8</b>

*MIG*

84.6% of the MIG grants had been received for the past six months.

*Equitable Share*

The equitable share allocations are paid in three trances to the municipality. The total amount of equitable share received amounts to R 14 773 000. The last trance in an amount of R 4 924 000 of will be paid out during March 2016.

*DWAF*

85.9% of DWAF funds were spend and claimed from DWAF. The remaining portion will be spend and claimed during the rest of financial year.

*Library*

The municipality already received the first transfer of R 426 261. The remaining 37% will be paid during March 2016.

Allocations for FMG and MSIG 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 799 456 as at 01 July 2015, to R 8 389 755.24 at the end

of December 2015. The municipality's improved position resulted from VAT returns refunded by SARS and the fact that MIG funding received was not spend at end of first 6 months:

**Table 8: Investment portfolio analysis**

DESCRIPTION	ACCOUNT NUMBER	OPENING BALANCE 01/07/2015	BALANCE AS ON 31/12/2015
MSIG/FMG	62150559486	23 343	1 476 439,21
Pula Nala	62364746986	10 268	7 883,56
MIG	62102417567	21 063	5 026 704,60
LOTTO	62304432123	10 637	349 431,09
Library	62304431828	17 256	210 102,02
EPWP	62364746580	31 235	633 540,53
Business Eff Rate Deposit	71129793876	85 654	85 654,23
Business Fixed Deposit	71197351979	600 000	600 000,00
<b>Total investments</b>		<b>799 456</b>	<b>8 389 755,24</b>

### **Borrowings**

The municipality only loan with DBSA has been settled. The only borrowing commitments left are the lease agreements. Installments are paid monthly but no differentiation was made between capital and finance costs. This needs to be rectified in accordance with amortization tables.

### **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 2015/2016.

### **Recommendation from the Accounting Officer**

After having assessed the performance of the municipality for the first half of the year ended 31 December 2015, the following is recommended:

- a) That the Mayor tables this report by 28 January 2016 together with the need to approve an adjustment budget.



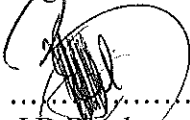
- b) That a revenue enhancement project be implemented to address the following:
  - Issues raised in Audit Report that deals with completeness of revenue
  - Issues raised in Audit Report that deals with ownership of RDP Houses
  - The current payment percentage of 36%
- c) That the revised projections as contained in this report inform the adjustment budget.

**Recommendations from the Mayor**

- a) Council takes note of the report and more specifically the assessment and recommendations contained in the report.
- b) Council considers the adjustments which will results in revisions to Service Delivery Budget and Implementation Plan, resulting in improved service delivery by taking into account the following:
  - The appropriation of additional allocations received and the increased realistically anticipated revenue during the financial year;
  - Operational Budget detail to be adjusted to reflect realistically anticipated revenue and expenditure as envisaged by the detail contained in the report to accompany the adjustment budget.
- c) That the Accounting Officer attend to ensuring that Directors put necessary corrective measures in place to ensure that Council meets its strategic objective contained in the Service Delivery and Budget Implementation Plan and report on same at the end of the quarter 3.

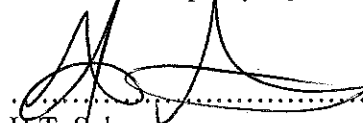
**Quality Certificate**

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 2015 to December 2015 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

.....  
 29/01/2016  
 Date

I, Teresa Hilda Scheepers, the Municipal Manager of !Kheis Municipality, hereby verify that the mid-year budget and performance assessment for the period 01 July 2015 to December 2015 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

.....  
 29/01/2016  
 Date