



**MANTSOPA LOCAL MUNICIPALITY
MID YEAR BUDGET AND PERFORMANCE ASSESSMENT
REPORT
31 DECEMBER 2016**

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1. Quality Certificate*Municipal Manager's quality certificate*

I **Selby Mohalerwa Selepe**, Municipal Manager of Mantsopa Local Municipality, hereby certify that the mid-year budget performance assessment have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name _____

Municipal Manager: Mantsopa Local Municipality (FS196)

Signature _____

Date _____

MANTSOPA LOCAL MUNICIPALITY

REPORT TO COUNCIL

MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT: 31 DECEMBER 2016

2. DEFINITIONS

Unless otherwise stated the following words shall be interpreted as follows:

“Revenue” – *It refers to the income that arises during the ordinary course of business*

“MFMA” – *Municipal Finance Management Act No. 56 of 2003*

“DORA” – *Division of Revenue Act 2008*

“Bad Debts” – *The amount that is recognized as unpaid for service charges*

“MIG” – *Municipal Infrastructure Grant*

“MSIG” – *Municipal Systems Improvement Grant*

“FMG” – *Financial Management Grant*

“IDP” – *Integrated Development Plan*

“NERSA” – *National Energy Regulator of South Africa*

“MPRA” – *Municipal Property Rates Act*

“ES” – *Equitable Share*

“EPWP” – *Expanded Public Works Programme*

“DWA” – *Department of Water Affairs*

3. LEGISLATIVE & MUNICIPAL OVERVIEW

LEGISLATIVE OVERVIEW:

In terms of section 72 of the Municipal Finance Management Act No. 56 of 2003, the municipality must assess its performance for the first half of the financial year taking into account the following:

- ✓ *The monthly financial reports for the first half of the year*
- ✓ *The service delivery performance during the first half of the financial year*
- ✓ *The past year's annual report and progress if any on resolving the problems identified*

In compiling the midyear budget performance assessment report, the municipality has also taken into account the Municipal Budget and Reporting Regulation issued in terms of Government Gazette No. 32141 which provides the reporting framework for the latter report.

MUNICIPAL OVERVIEW:

Mantsopa Local Municipality was established in terms of section 14 of Municipal Systems Act no. 117 of 1998 and was published in the Provincial Gazette no. 184, dated 28 September 2000.

Mantsopa Local Municipality is a Category B Municipality with a collective executive and the ward participatory system.

It forms part of the Eastern Free State and falls within the Thabo Mofutsanyana District Municipal area. The municipality borders the Kingdom of Lesotho in the east, Mangaung Metro Municipality to the south west and Masilonyana Local Municipality to the north and Setsoto Local Municipality to the east. Languages spoken in the Mantsopa area of jurisdiction are Sesotho, English and Afrikaans as dominant languages in the area.

The economy of Mantsopa is largely dependent on the Farming Sector, which employs the greater part of the community. The rest are employed by either the Private Sector or Public Sector. A Number of people are employed in Lesotho and reside in Ladybrand and Hobhouse. Tourism also forms part as a contributor to the economy as the Maluti Mountains in Lesotho and Lekhalong La Mantsopa as a national heritage site attracts tourists. Mantsopa is the gateway to the Mountain Kingdom of Lesotho which attracts a number of tourists nationally and internationally.

The area is accessible via the N8 and R26 roads which transverse the area.

The municipal area accommodates approximately 60 000 people and covers an area of 4 290 km². It incorporates five rural towns, namely; Ladybrand, Excelsior, Tweespruit, Hobhouse and Thaba Patchoa, which accommodates collectively 67% of the total population of Mantsopa.

4. INTRODUCTION

INTRODUCTION

The municipal Annual Budget for 2016/17 was adopted by Council on the 28 June 2016.

The budget serves as the municipality's financial plan and indicates how much of the revenue will go towards each of the activities outlined in the IDP. The budget indicates how and from where the municipality is generating its revenue, how much it will actually receive and how it will be spent on salaries, bulk purchases, repairs and maintenance and other services.

The IDP is a process through which the municipality prepares a strategic development plan, which extends over a five-year period. The IDP as a planning tool forms the basis of the system of developmental local government in South Africa and represents the driving force for making municipalities more strategic, inclusive, responsive, and performance driven in character. It is the principal strategic planning instrument which guides and informs all planning, budgeting, investment, development, management and implementation of decision-making. Each directorate is required to conclude a detailed annual Service Delivery and Budget Implementation Plan that gives operational manifestation to the IDP.

A Municipal **Budget** is distinguished in terms of Operating Budget and Capital Budget.

The operating budget – the municipality's operating budget lists the planned operating expenditure and income, for the delivery of all services to the community.

The capital budget - The capital budget list the planned capital projects, such as land, buildings, vehicles, machinery, equipment and furniture that have a life span beyond one financial year. (12 months)

Sources of municipal income to fund the budget

Main sources of operational budget financing

Property Rates - All owners of fixed property with a value above R80 000 (excluding business sites) in the municipal area are charged "Property Rates" – on an annual basis. The amount levied can be paid monthly.

Service Charges/Tariffs - Services are directly charged against consumers. Services include Water, Electricity, Refuse and Sewerage. Other service charges include rentals, approval of building plans, clearance certificates and services on an ad-hoc basis.

Fines -Traffic fines, penalties for tampering with meters.

Equitable Share - Equitable Share is funds that are allocated by National Government each year. The Constitution prescribe that all revenue collected nationally must be divided equitably [fairly] between national, provincial and local spheres of government. The local government equitable share is meant to ensure that municipalities can provide basic services and also to assist with the development of the area that the municipality manage.

Main sources of capital budget financing

External loans - External loans (from a bank or other financial institution) are an expensive form of financing the capital budget because of the high interest rates in South Africa.

Contributions from revenue - When purchasing a small capital item, the small total cost can be paid for from the operating income in the year of purchase.

Government grants - Municipalities may apply to national government for grants for infrastructure development.

Types of Grants

Conditional grants are grants that have a specific condition or a purpose attached in terms of expenditure. Expenditure on conditional grants should be incurred only in line with the specified conditions. Examples of conditional grants are; MIG, FMG, INEP, etc.

The purpose of MIG is to provide for new municipal infrastructure and rehabilitation of existing ones and to eradicate the bucket system in previously disadvantage areas. The condition of the grant is that the municipality should prioritise spending towards the residential infrastructure for water, sanitation, refuse removal, street lights, solid waste and roads in line with the policy framework or any other government sector plans which is normally established.

The purpose of FMG is to promote and support the reforms in financial management by building capacity in municipalities to implement the MFMA. One of the conditions of it is that the municipality must appoint interns as part of capacity building initiatives and in order to assist with the implementation of financial management reforms.

The municipality is also entitled to an Expanded Public Works Programme (EPWP) Grant which is aimed at incentivising the municipality for participating in the EPWP programme by employing more people in order to carry out projects with the necessary transfer of skill and the development of people in order to meet the National objective and vision 2020 in order to reduce unemployment.

Unconditional grants do not have any specific project or purpose to which expenditure should be incurred. However in terms of DORA spending on Equitable Share should only be incurred towards rendering a service as outlined in the Constitution of the Republic of South Africa, Chapter 7. There is also a specific amount included in Equitable Share to subsidize councillor's remuneration.

Unconditional grants are mainly in the form of Equitable Share.

5. APPROVED BUDGET OVERVIEW: 2016/17

Actual operating Revenue versus Budgeted Revenue

The Operating Revenue Budget for 2016/17 amounts to R 207,999,000. It was therefore anticipated that the revenue budget for the first six months will be R 103,999,500.

The total actual operating revenue for the first six months totals R 133,019,339, which exceeds the initial revenue forecast with 13.99%.

The 13.99% is attributed to operating grants received in terms of the DoRA.

Actual Operating Expenditure versus Budgeted Expenditure

The total operating expenditure budget for 2016/17 amounts to R 206,239,505. The year to date budget should therefore be R 103,119,752. The spending as for the first six months is R 103,532,237.00, which represents an average expenditure rate of 50.00% of the annual budget.

Capital Expenditure versus Budget

The capital budget for 2016/17 amounts to R 58,427,347. The year to date capital expenditure amounts to R 25,952,729 (R 29,586,111 VAT inclusive) and represents 44.41% of the annual budget.

Table C4 for a detail explanation of the operating budget.**FS196 Mantsopa - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December**

Description	2015/16	Budget Year 2016/17							Full Year Forecast
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
R thousands									
Revenue By Source									
Property rates	12 729	13 701		13	14 048	13 701	347	3%	
Property rates - penalties & collection charges	-	-		-	-	-	-	-	
Service charges - electricity revenue	34 987	45 023		1 694	22 302	22 511	(209)	-1%	
Service charges - water revenue	31 943	33 717		2 304	15 615	16 858	(1 244)	-7%	
Service charges - sanitation revenue	17 263	15 955		2 023	11 862	7 977	3 885	49%	
Service charges - refuse revenue	10 410	10 730		1 261	7 504	5 365	2 139	40%	
Service charges - other	-	-		-	-	-	-	-	
Rental of facilities and equipment	-	1 230		72	3 306	615	2 691	438%	
Interest earned - external investments	720	316		40	364	158	206	130%	
Interest earned - outstanding debtors	19 263	13 734		1 980	11 033	6 867	4 166	61%	
Dividends received	32	20		-	-	10	(10)	-100%	
Fines	523	1 015		-	-	508	(508)	-100%	
Licences and permits	-	-		0	0	-	0	#DIV/0!	
Agency services	-	-		-	-	-	-	-	
Transfers recognised - operational	90 096	71 511		22 165	51 803	35 756	16 047	45%	
Other revenue	15 955	1 048		55	624	524	100	19%	
Gains on disposal of PPE	-	-		-	-	-	-	-	
Total Revenue (excluding capital transfers and contributions)	233 921	207 999	-	31 606	138 462	110 850	27 612	25%	-
Expenditure By Type									
Employee related costs	78 534	80 256	-	6 369	38 365	40 128	(1 763)	-4%	
Remuneration of councillors	5 797	6 794	-	468	2 811	3 397	(586)	-17%	
Debt impairment	24 689	28 884	-	14 442	14 442	14 442	0	0%	
Depreciation & asset impairment	50 444	3 939	-	1 970	1 970	1 970	0	0%	
Finance charges	14 512	-	-	-	-	-	-	-	
Bulk purchases	37 497	39 366	-	4 572	21 080	19 683	1 397	7%	
Other materials	4 001	6 358	-	293	2 048	3 179	(1 131)	-36%	
Contracted services	1 173	3 000	-	2 338	6 233	1 500	4 733	316%	
Transfers and grants	1 149	1 764	-	115	563	882	(319)	-36%	
Other expenditure	29 316	35 880	-	5 547	16 021	17 940	(1 919)	-11%	
Loss on disposal of PPE	1 029	-	-	-	-	-	-	-	
Total Expenditure	248 144	206 240	-	36 113	103 532	103 120	412	0%	-
Surplus/(Deficit)	(14 223)	1 759	-	(4 507)	34 930	7 730	27 200	0	-
Transfers recognised - capital	53 925	56 668	-	9 747	19 699	28 334	(8 635)	(0)	
Contributions recognised - capital	-	-	-	-	-	-	-	-	
Contributed assets	-	-	-	-	-	-	-	-	
Surplus/(Deficit) after capital transfers & contributions	39 701	58 427	-	5 241	54 629	36 064			-
Taxation	-	-	-	-	-	-	-	-	
Surplus/(Deficit) after taxation	39 701	58 427	-	5 241	54 629	36 064			-
Attributable to minorities	-	-	-	-	-	-	-	-	
Surplus/(Deficit) attributable to municipality	39 701	58 427	-	5 241	54 629	36 064			-
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	
Surplus/ (Deficit) for the year	39 701	58 427	-	5 241	54 629	36 064			-

6. OPERATING REVENUE

Table C4 (above) depicts revenue sources that are attributable to the municipality and they are distinguished from own revenue sources which are mainly service charges and transfers from National Treasury.

Service Charges – Approved budget vs Year-to-Date spending

Property Rates – Increase by R 347,269 (3%)

Electricity – There is a slight variance of R209, 467 which is equivalent to 1% underperformance that can be contributed to broken pre-paid meters bypassed.

Water – Water revenue is R 1,243,616 (7%) less than what is anticipated and could be a result of faulty meters, unread meters or the fact that water restrictions have been announced for the first part of the year.

Sewerage - There is significant variance of R 3,884,901 when compared to year to date anticipation, which is over by 49%. This high variance can be contributed to Indigent Households not yet registered on the system, causing the revenue being overstated.

Refuse - - There is significant variance of R 2,139,187 when compared to year to date anticipation, which is over by 40%. This high variance can be contributed to Indigent Households not yet registered on the system, causing the revenue being overstated.

Interest on outstanding debt is 61% more than what was budgeted for the first half of the financial year. Interest mainly accumulates on outstanding debts of debtors in areas where Eskom provide electricity.

7. OPERATING EXPENDITURE

Table C4 (above) illustrates operating expenditure by type.

The actual expenditure to date is an amount of R 103,532,000, which represents an expenditure rate of 100% compared to the original budget. Although the expenditure rate is 100%, expenditure in certain areas is overspent (Contracted services) and in others underspent. The frail cash flow state of the municipality has however caused under spending in areas like repairs and maintenance. Repairs and maintenance is a 36% underperformance. This is primarily attributed to the cash flow crisis that faces the Municipality.

The percentage expenditure on employee related costs is 4% lower when compared to the year to date budget. The 4% underperformance should be seen as a result of vacant positions and not savings. Overtime is still a matter of concern and if reduced, the under spending of 4% will be higher.

It must be stressed that the number of temporary employees are 150 versus the 309 of full time employees.

Bulk purchases represent the electricity that the municipality purchases for resale. The expenditure to date amounts to 46.8% of the annual bulk purchases budget. However, as a result of the poor cash flow situation the outstanding payment towards the Eskom Bulk account has increased to R98,195,565. The increase of R37 million to last year's outstanding debt needs is a clear indication that not sufficient cash flow is generated to pay Eskom. The repayment plan presented to Eskom should be considered in an adjustment budget as an additional cash outflow that can only be covered by either increasing the revenue/cash inflow or reducing the budgeted expenditure.

It is encouraged that non service delivery expenditure should be avoided and focus should only be on service delivery expenditure.

8. CAPITAL BUDGET

Vote Description	2015/16	Budget Year 2016/17							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
Capital Expenditure - Standard Classification									
Governance and administration	851	500	-	466	673	500	173	35%	-
Executive and council	345	500	-	466	466	500	(34)	-7%	
Budget and treasury office	333	-	-	-	9	-	9	#DIV/0!	
Corporate services	173	-	-	-	198	-	198	#DIV/0!	
Community and public safety	16,012	4,897	-	402	2,847	2,449	398	16%	-
Community and social services	-	909	-	-	-	454	(454)	-100%	
Sport and recreation	16,012	3,988	-	402	2,847	1,994	853	43%	
Public safety	-	-	-	-	-	-	-		
Housing	-	-	-	-	-	-	-		
Health	-	-	-	-	-	-	-		
Economic and environmental services	24,570	12,661	-	1,031	3,833	6,330	(2,497)	-39%	-
Planning and development	-	-	-	-	-	-	-		
Road transport	24,570	12,661	-	1,031	3,833	6,330	(2,497)	-39%	
Environmental protection	-	-	-	-	-	-	-		
Trading services	21,527	40,360	-	2,939	3,163	20,180	(17,017)	-84%	-
Electricity	1,653	2,750	-	-	-	1,375	(1,375)	-100%	
Water	13,804	34,060	-	2,939	3,163	17,030	(13,867)	-81%	
Waste water management	6,071	3,550	-	-	-	1,775	(1,775)	-100%	
Waste management	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-		
Total Capital Expenditure - Standard Classification	62,961	58,418	-	4,839	10,516	29,459	(18,943)	-64%	-
Funded by:									
National Government	48,585	56,668	-	4,361	9,831	28,334	(18,503)	-65%	
Provincial Government	-	-	-	-	-	-	-		
District Municipality	-	-	-	-	-	-	-		
Other transfers and grants	-	-	-	-	-	-	-		
Transfers recognised - capital	48,585	56,668	-	4,361	9,831	28,334	(18,503)	-65%	-
Public contributions & donations	-	-	-	-	-	-	-		
Borrowing	-	-	-	-	-	-	-		
Internally generated funds	14,376	1,750	-	478	685	875	(190)	-22%	
Total Capital Funding	62,961	58,418	-	4,839	10,516	29,209	(18,693)	-64%	-

The Capital Budget is underspent by 64% and this under performance will result to an undesirable impact on services delivery and more seriously our grant funding in the coming financial years.

Grant funding were already reduced by National Treasury as a result of previous under spending. Previously, we were paid by MIG on presenting orders or commitment letters to prove spending, but this practice is not accepted by MIG anymore. Only paid invoices will be recognized as spending and therefor accepted.

Projects need to be rolled out sooner.

9. ANALYSIS OF OUTSTANDING DEBTORS

FS196 Mantsopa - Supporting Table SC3 Monthly Budget Statement - aged debtors - M06 December

Description	NT Code	Budget Year 2016/17										Actual Bad Debts Written Off against Debtors	Impairment - Bad Debts i.t.o Council Policy
		0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total	Total over 90 days		
R thousands													
Debtors Age Analysis By Income Source													
Trade and Other Receivables from Exchange Transactions - Water	1200	3,435	3,332	3,618	3,817	2,608	2,904	18,305	46,564	84,583	74,199		
Trade and Other Receivables from Exchange Transactions - Electricity	1300	2,553	1,974	1,756	1,864	1,819	1,374	3,202	10,953	25,496	19,212		
Receivables from Non-ex change Transactions - Property Rates	1400	1,116	807	662	696	591	580	3,258	19,191	26,901	24,317		
Receivables from Exchange Transactions - Waste Water Management	1500	2,916	2,625	2,495	2,434	2,419	2,287	10,044	63,048	88,268	80,232		
Receivables from Exchange Transactions - Waste Management	1600	1,867	1,684	1,592	1,554	1,543	1,473	6,038	47,101	62,851	57,709		
Receivables from Exchange Transactions - Property Rental Debtors	1700	48	44	41	42	41	136	253	2,588	3,194	3,061		
Interest on Arrear Debtor Accounts	1810									-	-		
Recoverable unauthorised, irregular, fruitless and wasteful expenditure	1820									-	-		
Other	1900	77	54	51	55	49	58	257	3,978	4,578	4,396		
Total By Income Source	2000	12,013	10,519	10,214	10,462	9,070	8,813	41,357	193,423	295,871	263,126	-	-
2015/16 - totals only										-	-		
Debtors Age Analysis By Customer Group													
Organs of State	2200	741	777	795	841	950	750	1,564	6,293	12,710	10,398		
Commercial	2300	1,115	940	659	825	673	627	2,168	8,372	15,379	12,665		
Households	2400	10,156	8,802	8,760	8,796	7,447	7,436	37,623	178,741	267,761	240,043		
Other	2500	0	0	0	0	0	1	2	18	21	20		
Total By Customer Group	2600	12,013	10,519	10,214	10,462	9,070	8,813	41,357	193,423	295,871	263,126	-	-

AGE ANALYSIS - OUSTANDING DEBT

The total outstanding debt by revenue source indicates that the highest debt is older than 365 days (1 year) which impairs the ability of the municipality to effectively collect. The highest outstanding debt by revenue source is Sewer (R88 million), Refuse (R62 million), and Water (R46 million). These debts are mainly from areas where the municipality does not provide electricity that can be used as a tool to cut in order to collect outstanding debts. The municipality is unable to cut or reduce the water supply for defaulting consumers due to technical issues.

The debtor's outstanding by customer group indicates that the highest debt emanates from households. Households owe 91.23% of the total outstanding debt.

The municipality must fully implement the debt collection policies and strategies that will ensure that collection is maximized.

10. RECOMMENDATIONS

The municipality is currently facing seriously cash flow challenges that impair the ability of the municipality to honor its contractual obligations as and when they are due. For the remaining period under review, the municipality should strive to increase collection on current accounts and reduce its expenditure by implementing austerity measures.

Based on the contents of this report the following recommendations are made:

1. Council take note of the Mid-year Budget Performance Assessment Report and the Annexures.
2. The current debt collection effort is maximised. Indigent registration on the financial system be fast tracked and as continuous registration take place, a registered person only have to register once in two years' time. Thus, except for a household that gets de-registered for disqualification, indigent registration is valid for the years 2016/17 and 207/18, where after it automatically deregister.
3. That austerity measures be implemented on the following items:
 - 3.1 Machinery Leases
 - 3.2 Equipment Rentals
 - 3.3 Travelling and Accommodation costs
 - 3.4 Cell phone\Telephone costs
 - 3.5 Overtime
4. An Adjustment Budget be compiled and tabled before Council by not later than 28 February 2017 as per Municipal Budget and Reporting Regulations.

11.ANNEXURES

C-SCHEDULE ATTACHED.