



**MANTSOPA LOCAL MUNICIPALITY
MID YEAR BUDGET AND PERFORMANCE ASSESSMENT
REPORT
31 DECEMBER 2015**

INDEX**NO. CONTENTS**

Quality Certificate

1. Introduction & Overview
2. Approved Budget Overview: 2015/16
3. Operating Revenue
4. Operating Expenditure
5. Capital Revenue (MIG) Versus Capital Expenditure
6. Analysis of Outstanding Debtors
7. Recommendations
8. Finance Reviewed Organogram
9. **Annexures:**

Main Tables:

Complete C-schedule

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 2015

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*

1. INTRODUCTION & 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.

Mantsopa local municipality is situated in the eastern Free State within the regional boundaries of the Thabo Mofutsanyana District Municipality (TMDM). The municipality's area measures 4 275, 59 km². The size of the population within the area is estimated at approximately 57 675 people from which 60% live in urban areas and 40% live in rural areas in terms of census 2001.

The municipal budget was adopted by Council on the 29 May 2015.

2. APPROVED BUDGET OVERVIEW: 2015/16

INTRODUCTION

The budget of the municipality is informed by the IDP. An IDP is a document that identifies and records developmental areas of the municipality with the objective of seeking ways to address them. The budget is an estimation of anticipated revenue and expenditure which gives effect to the IDP.

The **revenue budget** is distinguished in terms of operating revenue and capital revenue. The revenue budget also includes **grants and subsidies** which are classified in terms of conditional grants and unconditional grants.

Conditional grants are grants that have a specific condition or a purpose attached in terms of expenditure. It means that expenditure on that grant should be incurred only in line with a specific identified project. An example of them is the following, MIG, FMG, and MSIG.

The purpose of the MIG is to provide for new municipal infrastructure and rehabilitation of existing ones and to eradicate the bucket system mainly in urban townships. 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, roads in line with policy framework or any other government sector plans which is normally established before the start of the financial year

The purpose of the 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 and parcel of capacity building initiative and in order to assist with the implementation of financial management reforms.

The purpose of the MSIG is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal systems act. One of the conditions of the MSIG is that the municipality must submit an activity plan (*Business plan*) in the prescribed format with detailed budgets and time frames on the implementation of prioritised measurable outputs outlining key project to be carried out.

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 thereby providing skills and development in order to meet the National objective and vision 2020 of halving the 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 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 that is allocated under equitable share which is used to subsidize councillor's remuneration.

Unconditional grant is mainly in the form of equitable share. The purpose of the equitable share is to supplement the basic services that are provided by the municipality in terms of the constitution (section 152). It is an unconditional grant which should only be spent towards rendering a service to the community.

Operating revenue is mainly derived from levying of services (e.g. electricity, water, refuse, and cleaning services). The other major source of operating revenue is equitable share. Equitable share is allocated by the national government in order to subsidize poor families that are unable to pay their services due to economic situations (*please see section "Unconditional grants"*). Operating revenue is also derived from hiring of municipal facilities (e.g. halls, stadiums), selling of graves, traffic fines, and interest derived from outstanding debts and investments.

Capital revenue is mainly in the form of MIG. It is also referred to as a conditional grant. A conditional grant is a grant that has a specific conditions attached to it which basically implies that it can only be used for a specific purpose.

Operating expenditure is incurred by the municipality during normal operating activities in the financial year. They are composed of the following items of expenditure, Salaries, wages, & allowances, repairs & maintenance, bulk purchases (electricity purchases), external loans repayments, indigent subsidies costs, and depreciation.

Capital expenditure of the municipality consists of acquisition of new items of assets (e.g. Vehicles and equipment) and building of new infrastructure projects (roads, sanitation).

BUDGET OVERVIEW**Operating Revenue versus Budget**

The operating revenue budget for 2015 amounts to R232 892 000 therefore the revenue budget for the first six months will be R116 446 000.

The total actual operating revenue levied for the first six months totals R117 498 000 which represents a 50.05% levied against the total approved operating revenue.

The 50.05% is chiefly attributed to the equitable share grants received in terms of DoRA which is received in advance till February 2016.

Operating Expenditure versus Budget

The total operating expenditure budget for 2015 amounts to R 229 745 000. The year to date budget will therefore be R114 872 500.

The operating expenditure to date is an amount of R 101 796 000 which represents an average expenditure rate of 44.3% of the yearly budget.

Capital Expenditure versus Budget

The capital budget for 2015/16 is an amount of R 46 579 000. The year to date capital expenditure amounts to R13 139 000 (R14 625 307 VAT inclusive) and represents 28.2% of the yearly budget.

The total capital grants received to date is an amount of R 21 728 000 and represents 50% of the yearly budget (R43 457 000).

Attached find table C4 for a detail explanation of the operating budget, as well as table C1 for the capital expenditure.

FS196 Mantsope - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M06 December

Description	Ref	2014/15	Budget Year 2015/16						
		Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
Revenue By Source									
Property rates		12 438	13 850	(4)	12 994	6 925	6 069	88%	13 850
Service charges - electricity revenue		34 517	42 410	(45 618)	20 200	21 205	(1 005)	-5%	42 410
Service charges - water revenue		26 188	37 647	(2 218)	19 204	18 823	380	2%	37 647
Service charges - sanitation revenue		18 169	21 442	1 367	9 041	10 721	(1 680)	-16%	21 442
Service charges - refuse revenue		10 426	12 769	827	5 403	6 385	(981)	-15%	12 769
Rental of facilities and equipment		1 158	1 259	93	643	629	14	2%	1 259
Interest earned - external investments		548	571	23	243	286	(42)	-15%	571
Interest earned - outstanding debtors		22 225	25 000	1 633	9 203	12 500	(3 297)	-26%	25 000
Dividends received		27	20	1	1	10	(9)	-90%	20
Fines		536	574	-	-	287	(287)	100%	574
Licences and permits		1	-	-	-	-	-	-	-
Transfers recognised - operational		95 255	76 750	38 320	38 321	38 375	(54)	0%	76 750
Other revenue		3 861	601	35	2 245	301	1 944	647%	601
Total Revenue (excluding capital transfers and contributions)		225 349	232 892	(5 540)	117 498	116 446	1 052	1%	232 892
Expenditure By Type									
Employee related costs		69 771	73 028	5 890	36 789	36 514	275	1%	73 028
Remuneration of councillors		5 524	6 290	459	2 655	3 145	(490)	-16%	6 290
Debt impairment		60 962	50 820	-	-	25 410	(25 410)	100%	50 820
Depreciation & asset impairment		143 714	4 251	-	-	2 126	(2 126)	100%	4 251
Finance charges		1 425	-	-	-	-	-	-	-
Bulk purchases		34 311	37 476	2 554	17 545	18 738	(1 193)	-6%	37 476
Other materials		7 119	8 281	176	1 334	4 141	(2 807)	-68%	8 281
Contracted services		17 166	3 000	1 864	7 039	1 500	5 539	369%	3 000
Transfers and grants		1 229	10 020	559	22 206	5 010	17 196	343%	10 020
Other expenditure		27 394	36 579	6 061	14 228	18 289	(4 062)	-22%	36 579
Loss on disposal of PPE		11	-	-	-	-	-	-	-
Total Expenditure		368 624	229 745	17 562	101 796	114 873	(13 077)	-11%	229 745
Surplus/(Deficit)		(143 276)	3 147	(23 102)	15 702	1 573	14 129	0	3 147
Transfers recognised - capital		29 356	43 457	6 590	6 590	21 728	(15 139)	(0)	43 457
Surplus/(Deficit)		(113 920)	46 603	(16 513)	22 292	23 302			44 584

3. OPERATING REVENUE

Table C4 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 the National fiscus.

The budget for Property rates is estimated to decrease by a minimal amount of R 856 000 compared to the approved budget of 2015/16 year to date.

Electricity revenue budget is also anticipated lower by an amount of R 1.005 million, although prepaid sales by Centlec are not received yet. There is still a challenge with regard the Centlec contract as it is very difficult for the municipality to track pre-paid consumers and accurately calculate the prepaid losses. The municipality is therefore unable to determine prepaid consumers that are buying or bridging electricity through illegal connections.

Water service charge revenue is anticipated to decrease by an amount of R 381 000 compared to the adopted year to date budget. Sanitation is expected to decrease by R 1.68 million against the year to date budget. Refuse is anticipated to decrease by R 981 000 against the year to date budget.

Due to a decrease in outstanding debt which is currently R 232 million (R282 million in December 2014), interest on outstanding debt has decrease by R 3.297 million for the first half of the financial year.

4. OPERATING EXPENDITURE

The actual expenditure to date is an amount of R 101 796 000 which represents an expenditure rate of 44.3% compared to the original budget. The total operating expenditure for the first 6 months decrease with R13.077 million against the year to date budget. The weak cash flow situation of the municipality will have the effect that more expenditure will have to be cut back.

The percentage expenditure on employee related costs is an average of 49.5% of the yearly budget which represents a fair expenditure rate against the budget. Remuneration of Councilors is an average of 42% of the yearly budget which also represent a fair expenditure rate.

Bulk purchases which represents the electricity that the municipality buys for resale, there is an average expenditure rate of 46.8% of the yearly budget. However, as a result of the poor cash flow situation the outstanding payment towards the Eskom Bulk account is an average of R 61.2 million to date which is the highest compared to the prior R 34 million (31 December 2014). The foregoing is attributed to the prepaid electricity sales which is controlled by Centlec.

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

Based on the above there is a need to for a revised budget.

5. CAPITAL REVENUE (MIG) Versus CAPITAL EXPENDITURE

Table C5 - Capital expenditure

Vote Description	2014/15	Budget Year 2015/16					
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
Capital expenditure - Municipal Vote Expenditure of single-year capital appropriation							
1.1 - Municipal manager	-	44	-	22	(22)	-100%	44
1.3 - Integrated Development plan	-	14	-	7	(7)	-100%	14
2.1 - Mayor	-	98	-	49	(49)	-100%	98
2.3 - Council	6	-	-	-	-	-	-
3.1 - Financial Services	56	-	16	-	16	100%	16
4.1 - Administration Services	-	2 037	772	1 018	(247)	-24%	2 037
5.1 - Community Service	-	-	-	-	-	-	-
5.2 - Parks and Recreation	3 627	-	-	-	-	-	-
5.5 - Traffic	-	180	-	90	(90)	-100%	180
6.2 - Project Management Unit	7	5 171	851	2 585	(1 735)	-67%	5 171
6.4 - Roads and Streets	9 988	13 286	4 657	6 643	(1 986)	-30%	13 286
6.5 - Electricity	3 634	3 600	3 000	1 800	1 200	67%	3 600
6.6 - Water	1 509	22 000	3 874	11 000	(7 126)	-65%	22 000
6.7 - Sewerage	133	150	-	75	(75)	-100%	150
Total single-year capital expenditure	18 960	46 579	13 169	23 290	(10 121)	-43%	46 595
Capital expenditure & funds sources							
Capital transfers recognised	18 402	43 457	12 336	21 728	(9 392)	-43%	43 457
Internally generated funds	557	3 123	832	1 561	(729)	-47%	3 139
Total sources of capital funds	18 960	46 579	13 169	23 290	(10 121)	-43%	46 595

The capital budget for 2015/16 is an amount of R 46 579 000. The year to date capital expenditure amounts to R13 169 000 (R15 012 660 VAT inclusive) and represents 28.2% of the yearly budget.

The total capital grants received to date is an amount of R 21 728 000 and represents 50% of the yearly budget (R43 457 000).

6. ANALYSIS OF OUTSTANDING DEBTORS

The total municipal outstanding debt on 31 December 2015 amounts to R232 million (R282 million on 31 December 2014).

The following table clearly indicates the detail of the outstanding debtors.

Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total -
Debtors Age Analysis By Income Source									
Water	2 973 692	3 972 840	3 850 543	4 634 079	2 916 086	1 627 827	5 821 400	33 623 742	59 420 209
Electricity	2 495 168	5 147 474	1 462 409	997 112	809 549	779 910	332 8650	11 693 910	26 714 182
Property Rates	759 914	695 367	668 421	647 554	650 705	696 485	2 075 778	13 139 837	19 334 061
Sewer	1 766 071	1 717 806	1 665 593	1 648 025	1 628 720	1 635 175	5 697 283	53 546 855	69 305 528
Refuse	1 085 313	1 053 814	1 020 518	1 010 610	991 198	1 013 039	5 141 733	39 495 542	50 811 767
Rental	761	761	761	761	761	761	4 438	102 969	111 973
Other	69 869	76 659	67 979	67 432	66 024	170 725	289 141	5 754 154	6 561 983
Total	9 150 788	12 664 721	8 736 224	9 005 573	7 063 043	5 923 922	22 358 423	157 357 009	232 259 703
Debtors Age Analysis By Customer Group									
Organs of State	699 755	427 025	497 569	205 807	208 080	233 004	996 871	5 054 757	8 322 868
Commercial	1 353 907	43 14 296	437 691	445 314	321 763	301 684	2 594 480	7 468 347	17 237 482
Households	7 096 876	7 923 151	7 800 716	8 354 205	6 532 955	5 388 719	18 765 649	144 819 549	206 681 820
Other	250	249	248	247	245	515	1 423	14 356	17 533
Total	9 150 788	12 664 721	8 736 224	9 005 573	7 063 043	5 923 922	22358423	157 357 009	232 259 703

The total age analysis by revenue source stipulates that the highest debt is over 1 year old which impairs the ability of the municipality to fully collect it. The highest outstanding revenue by source is attributed to sewer (R69 million), water (R59 million), and refuse (R51 million). The municipality is unable to cut or reduce the water supply for defaulting consumers due to the type or old meters that are installed. The foregoing impairs the ability of the municipality to collect its revenue.

In order to maximize collection on all service charges the municipality employs the strategy of cutting electricity for defaulting consumers where it is the license holder in terms of electricity supply.

In order to maximize collection of revenue the municipality must have control over the sale of prepaid electricity as it can be used as a tool to collect and maximize revenue on other service charges.

The debtor's age analysis by customer group indicates that the highest debt emanates from households which accounts 88.9% of the total outstanding debt.

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

7. ORGANOGRAM

To ensure the most efficient management of the municipal's assets, which includes cash, cash equivalents, fixed assets and all other assets, the finance department had to review the organogram.

Attached please find the current as well as the proposed personnel structure for the finance department.

Approved organogram

Recommended Organogram

Dept	Post	Post lev	Action	Dept	Post lev	Action
OFFICE OF THE CFO						
	CFO	MFS			CFO	
	Secretary	9/1			Secretary	5/1
	5 x Interns	Interns			5 x Interns	Interns
					Financial Manager (Main Responsibility Revenue)	1/1 New
BUDGET & TREASURY						
	Manager BTO	1/1			Manager BTO	1/1
					Accountant Budget	3/1 New
	Senior Clerk (Reporting)	5/4			Senior Clerk (Reporting)	5/4
	Senior Clerk (Monitoring)	4/2			Senior Clerk (Monitoring)	4/2
	1 x Budget Clerk	7/2	Delete			

ASSETS AND FLEET (COMBINED)

				Asset/Fleet Manager	1/1	New
Asset Accountant	3/1			Fleet/Stores Accountant	3/1	
Senior Clerk	4/3			Senior Clerk (Asset)	4/3	
Asset Clerk	7/3			Asset Clerk	7/3	
Stores Clerk	7/3	Convert		Fleet clerk	7/3	Convert
Stores Clerk	7/3	Delete				
FLEET						
Fleet officer		Delete				
Pool Driver	10/2	Trsf Corporate				
Pool Driver	7/2	Trsf Corporate				
Mechanic		Trsf Techn				
Mechanic		Trsf Techn				
2 x General Workers		Trsf Techn				

SUPPLY CHAIN MANAGEMENT

SCM Manager	3/1			SCM Manager	3/1	
1 x Senior Clerk	5/3			1 x Senior Clerk	5/3	
1 x Clerk	7/2			1 x Clerk	7/4	

EXPENDITURE

				Manager Expenditure & Payroll	1/1	New
Accountant Expenditure	3/1			Accountant Expenditure	3/1	
Senior Clerk	4/3			Senior Expenditure Clerk	4/3	
Clerks Creditors	7/2			Clerk Creditors	7/2	
Clerks Creditors	7/2			Clerk Creditors (Filing)	7/4	
Salary clerk	6/1			Salary clerk	6/1	
Salary clerk	5/1			Salary clerk	5/1	

INCOME DIVISION

Accountant Income	3/1		Accountant Income	3/1	
Snr Debtors Clerk	4/2		Snr Debtors Clerk	4/2	
Snr Debtors Clerk	5/4		Snr Debtors Clerk	5/4	
Debtor Clerks	6/3		Debtor Clerks	6/3	
Cashier Ladybrand	7/1		Cashier Ladybrand	7/1	
Cashier Manyatseng	7/2		Cashier Manyatseng	7/2	
Cashier Hohouse	7/1		Cashier Hohouse	7/1	
Cashier Tweespruit	8/1		Cashier Tweespruit	8/1	
Cashier Excelsior	7/1		Cashier Excelsior	7/1	
Relief cashier	7/1		Relief cashier	7/1	
Debt Collection Clerk	5/2		Debt Collection Clerk	5/4	
Indigent Clerk Manyatseng	7/1		Indigent Clerk Manyatseng	7/1	
Data Capturer	7/3		Data Capturer	7/3	
Data Capturer	7/2		Data Capturer	8/4	
Meter readers Ladybrand	11/1		Meter reader Ladybrand	11/1	
Meter readers Ladybrand	11/1		Meter reader Ladybrand	11/1	
Meter readers Ladybrand	12/1		Meter reader Ladybrand/Relief Manyatseng	12/1	
Meter reader Manyatseng	12/1		Meter reader Manyatseng	12/1	
Meter reader Manyatseng	16/1		Meter reader Manyatseng	16/1	
Meter reader Hobhouse	12/1		Meter reader Manyatseng	16/1	New
Meter reader Thaba Patchoa			Meter reader Hobhouse	12/1	
Meter reader Tweespruit	13/1		Meter reader Thaba Patchoa		
Meter reader Excelsior	13/1		Meter reader Tweespruit	13/1	
Part time meter reader Excelsior		Delete	Meter reader Excelsior	13/1	
Part time meter reader Tweespruit		Delete	Cutt-off official	13/4	New
Part time meter reader Hobhouse		Delete	Cutt-off official	13/4	New
Admin clerk Thaba Patchoa		Delete			
1 x Officer Indigent Clerk Thaba Patchoa		Delete			

8. RECOMMENDATIONS

The municipality is currently facing cash flow challenges that may impair the ability of the municipality to honour its contractual obligations as and when they are due. For the remaining period under review the municipality should strive 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. That Council take note of the Mid-year Budget Performance Assessment Report and the Annexure
2. That the current account collection be maximised.
3. That austerity measures be implemented on the following items:
 - 3.1 Caterings / Refreshments
 - 3.2 Travelling and accommodation costs
 - 3.3 Transport costs.
4. That the revised budget be compiled and tabled before Council by not later than 28 February 2015 as per Budget and Reporting Regulation.
5. That the reviewed organogram for the financial division be approved for implementation 1st of February 2016.
6. Attached please find the complete C-schedule to be approved.

Thank you