

## **QUATERLY BUDGET STATEMENT FOR THE FOURTH QUARTER ENDING 30 JUNE 2008 (5/16/R)**

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### **INTRODUCTION / AIM**

The purpose of this report is to inform the Council on the **implementation of the budget and the financial state of affairs** of the municipality for the Fourth Quarter ending 30 June 2008

### **LEGAL REQUIREMENTS**

The **Report for the Fourth Quarter (April 2008 – June 2008)**, prepared in terms of **Section 71 of the Municipal Finance Management Act, Act 56 of 2003**, and the requirements of the Service Delivery Budget Implementation Plan (SDBIP), is submitted to Council in terms of **Section 52 (d) of the Municipal Finance Management Act, Act 56 of 2003** which **reflects the implementation of the budget and the financial state of affairs** of the municipality.

### **BACKGROUND**

Attached is the **Financial Report** for the month of June 2008, which reflects the implementation of the budget, and the state of the municipality's financial affairs.

The Financial Report consists of the following financial reports:

1. Operating Income & Expenditure (per category) June 2008
2. Departmental Operating Income & Expenditure June 2008
3. Payroll Report June 2008
4. Overtime Report June 2008
5. Capital Expenditure Report June 2008
6. Cash/Bank June 2008
7. Investments: June 2008
8. Debt Report: June 2008
  - 8.1. Monthly Levies, Receipts and Debt Balance
  - 8.2. Debtors Movement per Service
  - 8.3. Debtors Age Analysis per Month
9. Tender Status Report: June 2008
10. Statutory Compliance Report

## **DISCUSSION**

The municipality's **Total Budget** amounts to R345, 470,342 (Operating Budget: R258, 859,122 and Capital Budgets: R 86,611,220).

### **OPERATING EXPENDITURE**

Expenditure to date amounts to R 219,323,226 or 85% of the total budgeted amount of R 258,859,122.

- **Capital charges** amounting to R 10, 199, 007 per annum, are paid at the end of each quarter. The total to date is R 5,733,815.
- Journal entries for the **Provision of Working Capital** (R 11, 189, 898) are processed monthly and the total to date amounts to R 11,189,898.
- Journals entries for **Transfers to other Reserves** (R 5, 000, 000) will be processed with the compilation of the Annual Financial Statements in June 2008.
- The Operating Expenditure of R 22,630,211 for June 2008 includes Capital out of revenue amounting to R 3,616,977. The total Capital out of Revenue expenditure to date amounts to R 59,397,809 and is mainly due to over performance on Housing and MIG projects.

<b>OPERATING EXPENDITURE SUMMARY</b>	<b>ADJUSTED BUDGET</b>	<b>EXPENDITURE TO DATE</b>	<b>BALANCE</b>
Employee-related Costs	64,223,186	56,340,170	7,883,079
Councillors' Allowances	5,002,568	4,885,908	116,660
General Expenses	51,826,618	46,351,528	5,475,090
Provision for Working Capital	11,189,898	11,189,898	-
Bulk Purchases	16,350,542	15,456,678	893,864
Repairs and Maintenance	14,952,970	12,085,441	2,867,529
Contractor Services	20,456,912	7,882,042	12,574,870
Capital Charges	10,199,007	5,733,815	4,465,192
Contributions: Special Funds	5,000,000	-	5,000,000
Capital out of Revenue	59,657,421	59,397,809	259,612
<b>Total</b>	<b>258,859,122</b>	<b>219,323,225</b>	<b>39,535,896</b>

*(complete details are shown on pages 2-3)*

### **CAPITAL EXPENDITURE**

The **Total Capital Expenditure** for the month ending 30 June 2008 amounts to R6, 612,902. This amount includes expenditure on 2006/2007 unspent grants. The total capital expenditure amounting to R79, 160,802 or 91% of the approved adjustment budget of R 86,611,220 has been spent to date.

It should be noted that the Capital expenditure excludes retention allocated for specific projects.

### **Breakdown of Capital Expenditure:**

<b>PARTICULARS</b>	<b>ADJUSTED BUDGET</b>	<b>EXPENDITURE TO DATE</b>	<b>% SPENT</b>
Land & Buildings	1,000,000	940,936	94%
Roads	3,952,376	3,795,153	96%
Water	13,257,124	10,540,809	80%
Electricity	2,778,150	1,952,423	70%
Sewerage	29,014,392	25,940,324	89%
Housing	28,913,731	29,616,910	102%
Other / Vehicles / Equipment	5,276,087	4,351,342	82%
<b>Total Capital Expenditure</b>	<b>R 84,191,860</b>	<b>R 77,137,897</b>	<b>92%</b>
<b>UNSPENT GRANTS BUDGET</b>			
<b>2006/2007</b>	<b>R 2,419,360</b>	<b>R 2,022,903</b>	<b>84%</b>
Sport fields	1,000,000	959,578	96%
Toilets Grabouw	160,000	138,924	87%
Genadendal Water Upgrade	138,480	129,865	94%
Greyton Flood damage	620,880	551,980	89%
Multi purpose bus	500,000	242,556	49%
<b>Grand Total Capital Expend.</b>	<b>R 86,611,220</b>	<b>R 79,160,802</b>	<b>91%</b>

*(complete details are shown on pages 15-17)*

The adjustment budget reflected an additional amount of R 5000,000 in respect of Housing. In addition to this amount the municipality received another amount of R4, 190,818 for Housing. This result in the total amount received in terms of the Housing Grant to be R 33,104,549 instead of the R 28,913,731 that was approved per council resolution.

### **OPERATING REVENUE**

The **Operating Revenue** generated for the period to date amounts to R 236,568,344 or 91% of the approved budget of R 258,859,122.

R 31,222,877 of the **Assessment (Property) Rates Income** of R 34, 562, 392 budgeted, has been generated for the period July 2007 to June 2008.

**Service Charges** include revenue related to Consumption Charges (Water and Electricity), Refuse Removal, Sewerage, Availability Fees, New Connection Fees, Reconnection Fees, Sundry Income, etc.

*[Budgeted Amount = R 78 547, 005; Charged = R 72,011,816 (92%).]*

Traffic fines' Budget is R15m and to date an amount of R6, 265,234 (42%). The actual income for traffic fines is 58% below anticipation. This also has an impact on the contracted services for Traffic fines which amounts for 50% of the Traffic fines income. The R8, 7m under recovery will result in an amount of R4, 4m reflecting as under-spending on contractor services.

**Traffic budget vs. Actual**

Budget			Actual		
Income	Expense	*(Surplus)/ Deficit	Income	Expense	(Surplus)/ Deficit
(15,000,000)	11,511,812	(3,488,188)	(6,265,234)	7,651,732	1,386,498

\*(Surplus)/Deficit Budgeted before Internal Charges.

**Breakdown of Operating Revenue:**

Particulars	Adjusted Budget	Revenue to Date	Balance
Assessment Rates	34,562,392	31,222,877	3,339,515
Grants - Equitable Share	20,720,000	20,719,907	93
Grants - Other Operating	9,720,304	4,094,360	5,625,944
Grants - Capital Expenditure	59,657,421	61,106,458	-1,449,037
Electricity	25,596,380	26,607,807	-1,011,427
Water Sales	25,857,159	21,809,729	4,047,430
Refuse Removal	15,337,539	12,590,799	2,746,740
Sewerage	11,755,927	11,003,481	752,446
Traffic Fines	15,000,000	6,265,234	8,734,766
Investment Interest/ Penalties	5,528,794	9,998,252	-4,469,458
Licenses & Permits	50,000	54,933	-4,933
Rentals	1,850,238	1,584,601	265,637
Sundry / Other income	33,222,968	29,509,907	3,713,061
<b>Gross Revenue</b>	<b>258,859,122</b>	<b>236,568,345</b>	<b>22,290,777</b>

*(complete details are shown on page 2-3)*

**SOURCES OF FINANCE - CAPITAL REVENUE**

It should be noted that **Capital Revenue** represents the sources of finances of Capital expenditure and not actual capital receipts as indicated on the prescribed Section 71 Report in terms of the MFMA. Actual receipts could exceed the expenditure.

## DEBTOR INFORMATION

The total **Outstanding Debt** as at 30 June 2008 is R75, 964,542.

### Debtors Movement:

<b>Balance as at 01.07.2007</b>	<b>R</b>	<b>70,526,087</b>
Add: Charges/Levied: July 2007 - June 2008		94,587,408
Less: Receipts: July 2007 - June 2008		89,148,952
<b>Balance as at 30 June 2008</b>	<b>R</b>	<b>75,964,542</b>

*(complete details are shown on pages 33-39 )*

In June 2007 we took a bold and conscious decision to terminate attorney debt collection and established a **Debt Collection Unit**. It is unique in municipalities who are too reliant on attorneys who in most cases exploit the municipalities and the consumers. Files have been withdrawn from the attorneys to ensure a more cost-effective and advantageous in-house collection. Debtors are paying directly at our offices instead of at attorneys who charge huge sums in legal fees and interest at the disadvantage of both the municipality and the debtors.

In the process our **customers are being rehabilitated** and their **dignity restored**. The current winners are both council and the debtors (instead of the attorneys). With the attorney collections debtors' dues have increased substantially. A great deal of exploitation was also evident. We have the expertise to deal with all the legal processes internally and much more efficiently.

Proper **Indigents Management** and controls has also been put in place and council has "saved" substantially on subsidising households not qualifying but received the subsidy. A credible process of registration and verification was identified. Money paid to subsidise "ghost" Indigents is now applied for service delivery.

A **Sms System** has being introduced to sent debtor balances and arrangement reminders every month. It is however a cumbersome process. Some positive results are already visible but the full impact cannot be seen immediately due to the ineffective debt collection methodology.

Another intervention is **Debtor Profiling and Data-cleansing** following the drafting, work shopping and approval of the Financial Viability (detail strategy is available) and Credit Control, debt Collection and Indigent Policies.

RDP and Indigent Households account for approximately 24% (R20, 40m) of our current arrear debts. This is mainly as a result of water consumption in excess of 6kl which they cannot afford to pay. This figure is increasing at an alarming rate.

We have identified the Installation of **Prepaid Water Meters** as the solution. The problem is that we require at least **R8 million** for such installations

*(financial assistance would be highly appreciated!)*. This is one of the single most important Financial Viability interventions along with a Credit Control and Debt Collection System.

### **The Impact:**

Up to 2007 we paid in excess of R600, 000 legal fees which cannot be equated to any value for money.

Every additional 1% improvement in debt collection represents approximately R900, 000 which is a substantial amount for a municipality of our size. It further assists in tariff stabilisation.

- Debt Collection System which inter-phases into our Abakus Financial System.
- Sorting Facility into the Abakus System all delinquent Debt.
- Performance Management in Debt Collection: Allocation of Work, Targets, Monitoring and Evaluation of Collections.
- Provide all processes such for the entire Debt Collection Value Chain (Eg. Issuing of Letters of Demand, Follow-up, Diary Facility, Actions such as Disconnections, Reconnections, Legal Actions, Arrangements/ Acknowledgement of Debt,

### **Our Goals**

#### **Improvement of Credit Control and Debt Collection is one of the key pillars in our Financial Viability Strategy**

- Improved cash flow
- To reduce provision for working capital;
- To reduce the municipality's outstanding debtors book;
- To reduce legal and administration costs for both the Municipality and the consumer.
- Offer improved customer contact to the municipality's customer base
- Encourage prompt payment
- Better Credit Management & Administration
- Better control over in-house Debt Collection
- Better control and management over indigents
- Better & ready access to Management Information
- Fast & efficient recovery of Arrears
- 80/20 Pareto Principle.
- Customised System in line with our Credit Control/Debt Collection/Indigent Policies and Financial Viability Strategy
- Effective utilization & empowerment of existing in-house staff
- Continuous development of the system - changing legislation
- To provide customer care and improve customer relations
- To assist indigent customers
- A business plan has been submitted to the DBSA for funding

## **Automated Online Debt Management System**

- A sophisticated Computer System to manage the debt collections process with an appropriate electronic interface to maintain the debt collection process and enable online reporting and access to different features.
- Supply access to an automated online debt management system which will manage and control various administrative functions including the following:
  - Cut-off and remedial action lists;
  - Pre-legal collections;
  - Soft and hard tracing;
  - Listing and de-listing of debtors;
  - Promise to pay arrangements;
  - Legal collections
  - Control of debt collecting process;
  - Success management and reporting;
  - Password control and access management;
  - Indigent registration and management; and
  - Query and maintenance management.
- To facilitate complete integration of the computer system with Abakus. The online debt management system must also facilitate a debt recovery diary and workflow and Indigent Management

## **CREDITORS AGE ANALYSIS**

All creditors will be paid within 30 days of receiving the relevant invoice or statement as prescribed in terms of Section 65(e) of the MFMA. As at end of June 2008 the total amount payable, which represent commitments by Council of which the relevant invoice or statement is outstanding, amounted to R 1,114,010.78. The top 3 creditors are:

<b><u>CREDITOR</u></b>	<b><u>DETAILS</u></b>	<b><u>AMOUNT</u></b>
1. Umthi Omkhulu Trading	Purchase timber poles	197,704.32
2. Ubuntu Forensics	Investigate traffic	189,441.86
3. JCMC General Maintenance	Construction of sidewalks	155,048.55

## GRANTS

The following Grants were received to date:

Equitable Share	R 20,719,907.00
MIG	27,871,382.00
Housing	33,104,549.00
DBSA	449,357.00
Provincial Library Services	315,893.00
Finance Management Grant	500,000.00
Spatial Planning	250,000.00
MSIG	734,000.00
Maintenance of Proclaimed Main Roads	1,000,510.00
CDW	180,000.00
Project Preparation	62,000.00
Nuweberg	100,000.00
Masibambane	502,600.00
GIS	130,530.00
<b>TOTAL:</b>	<b>R 85,920,728.00</b>

It should be noted expenditure for the provision of free basic services from the Equitable Share Grant is incurred on a monthly basis. Expenditure in respect of the Finance Management Grant, Municipal Systems Improvement Grant and MIG are incurred in accordance with business plans. 80% Expenditure incurred on Proclaimed Main Roads can be claimed back from Province. Expenditure in respect of the Low Cost Housing is done in accordance with claims submitted to Local Government and Housing.

The adjustment budget reflected an additional amount of R5000, 000 in respect of Housing. The municipality received a further additional amount of R4, 190,818 during June 2008 in respect of Housing. This results in the total amount received for the Housing Grant to be R 33,104,549 instead of the R28, 913,731 that was approved as per council resolution.

<b>Grant</b>	<b>Balance 1 July 2007</b>	<b>Income YTD</b>	<b>Expenditure YTD</b>	<b>Balance 30 June 2008</b>
GIS	399,407	130,530	412,385	117,552
LGSETA	113,253	2,678	81,015	34,916
Botrivier Library	1,959		1,733	226
Masibambane DWAF	71,259	502,600	495,461	78,398
Financial Reform ODM	17,740		5,567	12,173
Culemborg Play Parks	12,852		-	12,852
Toilets Grabouw	160,000		138,924	21,076
Spatial Planning	300,000	250,000	4,505	545,495
Genadendal Water Upgrade	138,480		129,865	8,615
Dennekruin Town Establishment	49,968		-	49,968
Multi Purpose Bus	500,000		242,556	257,444
NEP	1,057,192		303,841	753,351
MSIG	604,110	734,000	1,030,536	307,574
FMG	508,241	500,000	633,512	374,729
Housing	487,731	33,104,549	29,616,910	3,975,370
Project Preparation Grant	62,500	62,000	55,100	69,400
CDW	180,000	180,000	37,023	322,977
Sports Fields	1,000,000		959,578	40,422
MIG	620,880	27,871,382	27,897,592	594,670
<b>TOTAL</b>	<b>6,285,572</b>	<b>63,337,739</b>	<b>62,046,103</b>	<b>7,577,208</b>

## CASH AND INVESTMENTS

<b>PARTICULARS</b>	<b>BANK</b>	<b>INVESTMENTS</b>	<b>TOTAL</b>
<b>Open Balance (01/07/2007)</b>	<b>2,683,643</b>	<b>14,543,622</b>	<b>17,227,265</b>
Receipts	284,385,068	80,000,000	364,385,068
Payments	275,397,089	87,000,000	362,397,089
<b>Closing Balance (31/03/2008)</b>	<b>11,671,622</b>	<b>7,543,622</b>	<b>19,215,244</b>
<b>Increase / (Decrease)</b>	<b>8,987,979</b>	<b>(7,000,000)</b>	<b>1,987,979</b>

*(complete details are shown on pages 18-20)*

## TENDER STATUS REPORT

A summarised **Tender Report** in terms of Supply Chain Management Policy and Regulations for the period ending 30 June 2008 is attached. 3 Tenders amounting to R 3,116,031 were awarded for the period ending 30 June 2008. The total to date is R 71,573,751.

*(complete details are shown on page 40-42)*

## **EMPLOYEE RELATED COSTS / EXPENDITURE ON STAFF BENEFITS**

The payroll report for the period June 2008 is hereto attached as required in terms of section 66 of the MFMA. The breakdown of overtime payments paid per department and payment to officials is also included.

*(complete details are shown on page 4 )*

## **FINANCIAL IMPLICATION**

As per attached report.

## **RECOMMENDATION**

It is recommended that:

- 1. The Council notes the Financial Report as at 30 June 2008.**
- 2. That Council notes that some of the figures in the report will change as a result of year end transactions.**

*Report compiled by Mr. SN Jacobs & Me. MS Cornett for presentation by the Director: Financial Services, Mr. SN Jacobs*