

**REPORT TO COUNCIL: 31 OCTOBER 2011**  
**OFFICE OF THE EXECUTIVE MAYOR**

**STATEMENT OF FINANCIAL PERFORMANCE AND THE IMPLEMENTATION OF THE**  
**2011/12 BUDGET FOR THE QUARTER ENDING 30 SEPTEMBER 2011**

**File No.** 5/1/1/1[10/11]  
**Author:** Mr. Vincent Pillay  
Acting Chief Financial Officer

**1. PURPOSE**

The purpose of the report is for Council to note the 2011/12 budget implementation performance assessment and service delivery actual performance against the set targets as well the state of affairs in terms of its revenue and expenditure for the quarter ending 30 September 2011.

**2. AUTHORITY**

In terms of Section 52 (d) of the Municipal Finance Management Act No 56, 2003 Chapter 7, the Mayor must within 30 (thirty) days of the end of each quarter, submit a report to Council on the implementation of the budget and the financial state of affairs of the Municipality. A summary report was submitted to the Executive Mayor on the 10<sup>th</sup> working day of October 2011.

**3. LEGAL / STATUTORY REQUIREMENTS**

Municipal Finance Management Act No 56, 2003 Chapter 7, Section 52 (d).

**4. EXPOSITION OF FACTS**

*The exposition of facts is in the following order:*

- 4.1 *Executive Summary on the Implementation of the Budget and the Financial State of Affairs of the Municipality***
- 4.2 *Statement of Financial Performance***
- 4.3 *Capital Expenditure***
- 4.4 *Expenditure on Conditional Grants - DoRA Allocation***

#### **4.1 EXECUTIVE SUMMARY ON THE IMPLEMENTATION OF THE BUDGET AND THE FINANCIAL STATE OF AFFAIRS OF THE MUNICIPALITY**

##### **4.1.1 Service Delivery and Budget Implementation Plan**

The Municipal Finance Management Act requires a municipality's Budget and Integrated Development Plan to be mutually consistent and credible. The Service Delivery and Budget Implementation Plan are used by Buffalo City Metropolitan Municipality (BCMM) as a tool to monitor and measure the implementation of the budget. The actual performance against the key performance indicators and targets is monitored and measured on a three quarters basis and corrective action is put in place to address variances.

A report on the performance against SDBIP indicators and target is contained in Annexure C

## 4.1.2 Dashboard / Performance Summary

**Table 1: Performance Summary**

<b><u>Overall Operating results</u></b>		<b><u>Cash Management</u></b>	
Income	R 972,172,651	Cash on hand	R 89,753,138
Expenditure	R 901,716,140	Total value of investments	R 839,694,775
Off-Set Depreciation	R 77,685,136	Total investments - own funds	R 337,779,356
Operating Surplus	R 148,141,648	Total conditional grants	R 501,915,418
		Total Loans	R 684,747,802
<b><u>Debtors</u></b>		<b><u>Surplus per Service</u></b>	
Total debtors book	R 547,722,028	Water	(R453,355)
Total debtors - Government	R 16,941,685	Electricity	(R37,770,723)
Total debtors - Business	R 95,471,829	Refuse	R23,014,311
Total debtors - Households	R 375,928,381	Sewerage	R8,392,573
Total debtors - Other	R 59,380,133		
Total debt written off	R 37,730		
Year to date collection	R 184,566,196		
<b><u>Capital Expenditure</u></b>		<b><u>Operating Projects Expenditure</u></b>	
Capital Expenditure as a % of total approved adjusted budget (2010/11: 6%)	5%	Operating Expenditure as a % of total approved adjusted budget (2010/11: 20.13%)	4%
<b><u>Financial</u></b>		<b><u>Human Resources</u></b>	
Operating surplus for the period	R 148,141,648	Staff appointments	105
Debtors collection ratio %	85.1%	Staff terminations	49
YTD all grants and subsidies	R 238,456	Total staff complement	4,590
Net Debtors to Annual Income	15.0%	Total overtime paid for the month	R 3,194,718
%age of Creditors paid within terms	100%	Number of funded vacant posts	536
Current ratio	1.68:1	Salary bill - Councilors	R 6,680,777
Long Term Borrowings to Total Assets	5.2%	Salary bill - Officials	R 212,366,103
Long Term Borrowings to Revenue	25.5%	Workforce costs as a % of income	21.8%
Capital Charges to Operating Exp.	15.7%		

### **4.1.3 Summary of the Financial Performance and Position of the Municipality**

#### **Liquidity position**

Buffalo City Metropolitan Municipality's liquidity is considered sound as the Current Ratio is 1.68:1 which indicates the ability of Municipality's current assets to cover its Current liabilities. This ratio has improved when compared to 1.54:1 in 30 June 2011. However it should be noted that one of the contributing components to the increase in the current ratio are debtors and inventory. Debtors constitute 33% of the current assets. Inventory constitutes 9% of the current assets and BCMM is currently managing its stock levels in order to avoid having its cash reserves tied up in inventory. Cash and cash equivalents comprise 56% of the current assets, it should however be noted that a large portion of the investments (R501.92 million) is unspent conditional grants.

#### **Debtors Collection Rate and Outstanding Debtors**

The average debtor's collection rate for the two month ending 30 September 2011 is 85.08%. The collection rate is lower than the National Treasury set target of 97%. It however indicates an increase when compared to the same period in the previous financial year (2010/11: 83.07%).

The following Challenges are being experienced:

- Lack of a full time contractor to perform disconnection and reconnections of electricity in line with our credit control policy.
- No handovers since December 2010 due to a panel of Collection Agents not appointed.
- Delays in collection action due to individual account vetting prior to disconnection.
- Non- reading of meters resulting into use of averaging.

The following Corrective Measures have been implemented:

- 33000 letters of demand have been sent to debtors in September 2011.
- A panel of collection agents have been appointed from July 2011.
- A temporary contractor has been appointed to perform disconnections and re-connections.
- The contract for disconnections & re-connections is at Bid Evaluation stage.
- Blocking action has been implemented to all debtors in arrears that have prepayment meters.
- Implementation of in house debt collection has commenced in the current financial year.
- Final draft of Revenue Enhancement Strategy was developed and is progressing to Top Management that will address short term, medium term and long term solutions.
- Revenue Roll-out campaign is currently in process to deal with billing related queries at various cash offices.

Total net debtors outstanding as at 30 September 2011 amounts to R547.72 million (Households: R375.93 million, Business: R95.47 million, Government: R16.94 million, Other: R59.38 million). The net debtors' book has increased by 26% (R113.72 million) when compared to 30 June 2011.

The ratio of outstanding debtors' to revenue is 15%. This has slightly decreased when compared to 14.3% on 30 June 2011.

Buffalo City Metropolitan Municipality's debt is still experiencing increase in its debtors book. The effect of the global economic crisis has resulted in the escalation of unemployment. BCMM is currently implementing the revenue enhancement strategy which is as follows:

- Strict implementation of credit control policy.
- Increase the number of meter readers in order to ensure billing of actual consumption.
- Data Clean-up of consumer accounts to avoid duplicate billing.
- The analysis of the debt book to determine the recoverable and irrecoverable debt.

- The formulation of a task team between the Directorate of Finance and Engineering Services to address issues of water and electricity losses.

### **Long-Term Debt Profile**

Buffalo City Metropolitan Municipality has a long term loan facility with the Development Bank of Southern Africa (DBSA) to the amount of R750 million. This is utilized to predominantly fund the capital infrastructure development programme mainly for the previously disadvantaged areas.

The total long term borrowing of the municipality as at 30 September 2011 amounts to R684.75 million (Refer to Annexure F). The ratio of debt to total assets is 5.2% as at 30 September 2011. The debt to revenue ratio is 25.49% and has increased when compared to 30 June 2011 which was 32.3%.

The loan facility with DBSA has been almost fully utilised and the debt to revenue ratio is still within the ceiling of 35% as per National Treasury Guidelines.

### **Cash flow**

The cash flow financial position of the City as at 30 September 2011 is R329 million. It must be however be noted that R179 million is committed to own funded projects that for the 2011/12 financial year.

### **Operating Projects**

Operating projects expenditure for the period ending 30 September 2011 is 4% (R15.54 million) of the 2011/12 approved budget of R356.72 million.

Operating projects are mainly funded from conditional and unconditional grants. The under spending on these grants will have a negative impact on BCMM securing funding in future from the respective funders.

### **Capital Projects**

The total expenditure on capital projects as at 30 September 2011 amounts to R36.99 million which is 5% of the approved budget of R764.67 million for the 2011/12 financial year. About 86% of the capital budget is funded from grants. The under spending on these grants will have a negative impact on BCMM securing funding in future from the respective funders.

## 4.2 STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDING 30 SEPTEMBER 2011

The Statement of Financial Performance is presented on the **accrual basis**, which identifies budgeted revenue and expenditure to accrued revenue and expenditure and the corresponding surplus generated for the period (refer to annexure A – C4).

**Table 4: Statement of Financial Performance for the Period Ending 30 September 2011**

EC125 Buffalo City - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M03 September											
Description	Ref	2010/11	Budget Year 2011/12								
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast	
<b>R thousands</b>											
<b>Revenue By Source</b>											
Property rates			520,511		72,971	151,412	150,629	783	1%	520,511	
Property rates - penalties & collection charges			1,236		52	155	173	(17)	-10%	1,236	
Service charges - electricity revenue			1,142,652		104,737	305,260	264,520	40,740	15%	1,142,652	
Service charges - water revenue			233,283		18,087	59,139	56,726	2,413	4%	233,283	
Service charges - sanitation revenue			180,203		17,107	45,171	44,530	641	1%	180,203	
Service charges - refuse revenue			173,905		14,802	44,172	43,476	695	2%	173,905	
Service charges - other			22,539		(654)	6,033	5,892	141	2%	22,539	
Rental of facilities and equipment			12,759		725	2,074	1,881	193	10%	12,759	
Interest earned - external investments			30,192		3,564	7,441	7,325	116	2%	30,192	
Interest earned - outstanding debtors			22,036		1,907	5,817	5,635	182	3%	22,036	
Dividends received			60					-		60	
Fines			10,657		420	1,575	2,046	(471)	-23%	10,657	
Licences and permits			15,391		1,105	3,894	4,117	(224)	-5%	15,391	
Agency services								-			
Transfers recognised - operational			966,570		5,234	253,999	285,950	(31,950)	-11%	966,570	
Other revenue			321,296		8,291	86,031	74,380	11,651	16%	321,296	
Gains on disposal of PPE								-			
<b>Total Revenue (excluding capital transfers and contributions)</b>			-	3,653,289	-	248,350	972,173	947,280	24,893	3%	3,653,289
<b>Expenditure By Type</b>											
Employee related costs			983,308		72,404	212,366	245,827	(33,461)	-14%	983,308	
Remuneration of councillors			28,871		2,238	6,681	6,368	312	5%	28,871	
Debt impairment			165,450		13,788	41,363	41,363	-		165,450	
Depreciation & asset impairment			473,248		39,437	118,312	118,312	-		473,248	
Finance charges			67,067		5,589	16,767	16,767	-		67,067	
Bulk purchases			940,528		110,848	328,388	317,381	11,006	3%	940,528	
Other materials								-			
Contracted services			8,317		692	1,006	1,451	(445)	-31%	8,317	
Transfers and grants			3,432				858	(858)	-100%	3,432	
Other expenditure			1,256,770		66,449	176,834	238,486	(61,651)	-26%	1,256,770	
Loss on disposal of PPE								-			
<b>Total Expenditure</b>			-	3,926,991	-	311,446	901,716	986,812	(85,096)	-9%	3,926,991
Off-Set Depreciation				(310,741)		(25,895)	(77,685)	(103,580)	25,895	-25%	(310,741)
<b>Surplus/(Deficit)</b>			-	37,039	-	(37,201)	148,142	64,047	84,094	131%	37,039
Transfers recognised - capital				654,418							
Contributions recognised - capital											
Contributed assets											
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>			-	691,457	-	(37,201)	148,142	64,047		691,457	
Taxation											
<b>Surplus/(Deficit) after taxation</b>			-	691,457	-	(37,201)	148,142	64,047		691,457	
Attributable to minorities											
<b>Surplus/(Deficit) attributable to municipality</b>			-	691,457	-	(37,201)	148,142	64,047		691,457	
Share of surplus/ (deficit) of associate											
<b>Surplus/ (Deficit) for the year</b>			-	691,457	-	(37,201)	148,142	64,047		691,457	

## **Notes to the Statement of Financial Performance for the Period Ending 30 September 2011**

### **1. Transfers Recognised – Operational**

The transfers recognised relates to grants and subsidies received as well as operating projects income. Grants and Subsidies received to date amounts to R238.46 million. Operating projects income is recognised as the expenditure is incurred and to date R15.54 million has been recognised. The unfavourable variance on transfers recognised is the result of under expenditure on operating projects.

### **2. Other Revenue**

Other revenue is made up of numerous miscellaneous items (e.g. town planning fees, market income, cemetery fees and etc).

### **3. Debt Impairment**

This is in respect of provision for bad debts.

### **4. Bulk Purchases**

This represents purchases of electricity and water for redistribution. The unfavourable variance is due to the fact that expenditure on water and electricity is not incurred proportionally throughout the year due to cyclic demands. It is anticipated that the expenditure will be within budget at the end of the financial year.

### **5. Employee Related Costs**

The employee related costs were under spent by 14%, due to vacant funded posts that are not yet filled. Refer to Annexure B –SC8 for the employee related costs expenditure breakdown per type.

The overtime expenditure to date is within budget. Table 5 below reflects the analysis of overtime per directorate.

**Table 5: Analysis of Overtime**

<b>Overtime</b>	<b>2011/2012 Annual Budget R</b>	<b>2011/2012 YTD Budget R</b>	<b>2011/2012 YTD Expenditure R</b>	<b>2011/2012 Variance R</b>	<b>2011/2012 Variance %</b>
Strategic Management	1,244,581	311,145	237,281	73,864	23.74
Finance & Support Services	1,427,503	356,876	52,653	304,223	85.25
Municipal Services	38,801,494	9,700,374	5,657,371	4,043,002	41.68
Development Planning & Management	42,382	10,596	9,958	637	6.02
Development Facilitation & Partnerships	830,557	207,639	169,672	37,967	18.29
<b>Total</b>	<b>42,346,517</b>	<b>10,586,629</b>	<b>6,126,935</b>	<b>4,459,694</b>	<b>42.13</b>

## **6. Other Expenditure**

Other expenditure includes operating projects, general expenses as well as repairs and maintenance and all were under spent.

**Table 6: Repairs and Maintenance**

<b>Repairs &amp; Maintenance</b>	<b>2011/2012 Annual Budget R</b>	<b>2011/2012 YTD Budget R</b>	<b>2011/2012 YTD Expenditure R</b>	<b>2011/2012 Variance R</b>	<b>2011/2012 % of the YTD Budget</b>
Strategic Management	2,115,490	528,873	319,060	209,812	60.33
Finance & Support Services	15,017,715	3,754,429	2,158,754	1,595,675	57.50
Municipal Services	219,916,251	54,979,063	29,601,205	25,377,858	53.84
Development Planning & Management	727,968	181,992	165,457	16,535	90.91
Development Facilitation & Partnerships	4,258,117	1,064,529	284,155	780,374	26.69
<b>TOTAL</b>	<b>242,035,541</b>	<b>60,508,885</b>	<b>32,528,631</b>	<b>27,980,254</b>	<b>53.76</b>

The table above reflects repairs and maintenance expenditure against budget. Repairs and Maintenance expenditure efficiency ratio for the period ending 30 September 2011 is 53.76% (R32.53 million). This indicates a decrease in expenditure pattern when compared to the previous financial year (2010/2011: 71.62%). Refer to Annexure B: SC13c (repairs and maintenance by asset class).

**Table 7: Operational Projects**

<b>Directorate</b>	<b>2011/2012 Approved Budget R</b>	<b>2011/2012 YTD Exp R</b>	<b>2011/2012 Variance R</b>	<b>2011/2012 Exp. Vs Budget %</b>
Strategic Management	2,226,232	294,244	1,931,988	13%
Finance & Support Services	11,212,734	389,415	10,823,320	3%
Municipal Services	315,100,309	13,389,814	301,710,495	4%
Development Planning & Management	6,370,000	639,364	5,730,636	10%
Development Facilitation & Partnerships	21,810,393	830,652	20,979,741	4%
<b>TOTAL</b>	<b>356,719,668</b>	<b>15,543,488</b>	<b>341,176,180</b>	<b>4%</b>

The table above reflects operating projects expenditure against budget. Operating projects expenditure for the period ending 30 September 2011 is R15.54 million which is 4% of the approved budget of R356.72 million. The expenditure pattern has increased when compared to the previous financial year (2010/11 20.13%). Comments on the under expenditure are disclosed in Annexure D.

## **Comments on Low Expenditure**

### **Finance and Support Services**

#### ***Financial Services***

The directorate was engaged with procurement processes in the first quarter, however the service providers have now been appointed and the expenditure is expected to expedite in the remaining three quarters and the funding will be fully utilized by the end of the financial year.

## **Municipal Services**

### **Public Safety**

**Crime Prevention Strategy:** There was no response to the tenders and therefore it will be re-advertised.

**Traffic Safety Plan:** Tenders closed. Spending will occur once approved by Bid Adjudication Committee.

**Disaster Management Structures/ Risk & Vulnerability Assessment:** Funding to be used for the Disaster Management Framework Policy. Service provider has been appointed on 7 October 2011.

### **Health Services**

**Development and implementation of an Air Quality Management Plan as well as Develop and implement Municipal Health Services Delivery Plan:** Both projects are awaiting HDI and pricing functionality schedule to be signed by SCM before sent to BEC.  
Corrective measures - To follow up with SCM and try to speed up the process.

### **Solid Waste Management Services**

**Integrated Waste Management Plan of Buffalo City:** SCM has drafted letters to all bidders advising them of re-tender processes.

Corrective measures - Request Supply Chain Management to speed up the processes

### **Arts and Cultural Services, Amenities and Environmental Services**

Section 78 Studies for the Zoo, Aquarium: the committee was appointed by the Executive Mayor for 2010/2011 financial year to do feasibility study and the committee did not complete the study. Section 78 study will be done in-house using the method of best practice at other similar institutions in the country

## **Development Facilitation and Partnership**

**Transport Policies and By-Laws:** This tender was cancelled and had to be re-advertised. The tender was advertised on 7 October 2011 and closes on 21 October 2011.

**Transport Planning:** A consultant has been appointed to conduct a Rural Non-Motorized Study, but Councilors need to be nominated to serve on the steering committee before work can commence.

## **4.3 CAPITAL EXPENDITURE**

The total expenditure on capital projects as at 30 September 2011 amounts to R36.99 million which is 5% of the approved budget of R764.67 million for the 2011/12 financial year. The capital expenditure indicates a decrease in expenditure pattern when compared to the previous financial year (2010/11) which was 6%. Comments on the under expenditure are disclosed in Annexure E. Refer to Annexure A: C5, Annexure B: SC12, SC13a and SC13b.

Table 8 identifies the actual Capital Expenditure per Funding against budget.

**Table 8: Capital Expenditure per Funding Source against Budget**

<b>Funding</b>	<b><u>2011/2012 Approved Budget</u></b>	<b><u>YTD Expenditure</u></b>	<b><u>Variance</u></b>	<b><u>% Expenditure vs Approved Budget</u></b>
Own Funds	58 584 502	3 303 245	55 281 257	6%
Own Funds c/o	51 666 539	8 957 088	42 709 451	17%
<b>Total Own Funding</b>	<b>110 251 041</b>	<b>12 260 333</b>	<b>97 990 708</b>	<b>11%</b>
BCMET c/o	710 630	0	710 630	0%
DoE(Integrated National Electrification Programme)	21 000 000	0	21 000 000	0%
Disaster Management Fund c/o	128 719	0	128 719	0%
Electricity Demand Side Management Grant	4 000 000	0	4 000 000	0%
Public Transport Infrastructure & Systems Grant (PTIS)	180 000 000	0	180 000 000	0%
Urban Settlement Development Grant	409 233 906	24 691 552	384 542 354	6%
Human Settlement Development Grant	39 344 834	42 382	39 302 452	0%
<b>Total Grant Funding</b>	<b>654 418 089</b>	<b>24 733 935</b>	<b>629 684 154</b>	<b>4%</b>
<b>TOTAL PER FUNDING</b>	<b>764 669 130</b>	<b>36 994 268</b>	<b>727 674 862</b>	<b>5%</b>

Table 9 below gives a breakdown of the spending per Service.

**Table 9: Actual Expenditure per Service against Budget**

<b>Services</b>	<b><u>2011/2012 Approved Budget</u></b>	<b><u>YTD Expenditure</u></b>	<b><u>Variance</u></b>	<b><u>% Expenditure vs Approved Budget</u></b>
Water	21 000 000	3 864 787	17 135 213	18%
Waste Water	204 000 000	12 034 931	191 965 069	6%
Electricity	36 701 358	0	36 701 358	0%
Roads and Storm water	67 375 700	7 485 238	59 890 462	11%
Housing	107 159 284	906 608	106 252 676	1%
Transport Planning	221 667 050	2 685 215	218 981 835	1%
Cleansing	44 628 479	184 927	44 443 552	0%
Amenities	10 964 107	270 114	10 693 993	2%
Environmental Services	3 572 163	55 900	3 516 263	2%
Health Services	3 833 619	101 688	3 731 931	3%
Public Safety	22 163 116	6 117 236	16 045 880	28%
Support Services	13 370 489	1 071	13 369 419	0%
Other - BCM Fleet	8 233 765	3 286 555	4 947 210	40%
<b>TOTAL PER SERVICE</b>	<b>764 669 130</b>	<b>36 994 268</b>	<b>727 674 862</b>	<b>5%</b>

Table 10 identifies the actual Capital Expenditure per Directorate against budget.

**Table 10: Actual Expenditure per Directorate against Budget**

<b>Directorate</b>	<b><u>2011/2012 Approved Budget</u></b>	<b><u>YTD Expenditure</u></b>	<b><u>Variance</u></b>	<b><u>% Expenditure vs. Approved Budget</u></b>
Strategic Management	1 000 000	0	1 000 000	0%
Finance and Support Services	13 370 489	1 071	13 369 418	0%
Municipal Services	529 631 591	34 307 993	495 323 598	6%
Development Planning & Management	0	0	0	0%
Development Facilitation & Partnerships	220 667 050	2 685 215	217 981 835	1%
<b>TOTAL PER DIRECTORATE</b>	<b>764 669 130</b>	<b>36 994 279</b>	<b>727 674 851</b>	<b>5%</b>

\* Note: That the budget for the Directorate of Finance Corporate Services includes an amount of R5 m for Insurance Asset Replacement for the entire Buffalo City Municipality.

### **Comments on Low Expenditure**

#### **Finance and Support Services**

##### ***Financial Services***

Experiencing land dispute challenges for the implementation of Upgrading All Zone s Mdantsane Offices. Service provider has been appointed for the design stage of the KWT sales hall upgrade.

#### **Municipal Services**

##### ***Public Safety***

***Fire Station KWT:*** No spending, as tenders received came in at double the budgeted amount. Scope of work to be reduced to fit budget and tender to be re-advertised.

***Law Enforcement Equipment:*** R7 956 spent. R22 037 committed (orders placed) with further orders to be placed in due course.

***Traffic Vehicles:*** Purchases to be made along with the general fleet tender when orders are placed.

***Learners License Centre:*** Insufficient funds – plans reveal cost in region of R2.5m required for project.

***Fire Engine R/O:*** Orders placed. 50% payment made as per contract. Balance to be paid on delivery (November 2011)

***Fire Engine Equipment:*** R28 500 spent. R1 181 439 committed via orders placed. Awaiting delivery.

***Disaster Management Capacity:*** Quotations requested. Orders to be placed in due course.

***Disaster Management Centre:*** Unsuccessful informal bids. Deviation requested in order to call for quotations instead before spending can proceed.

### **Solid Waste Management Services**

**Purchase of 7 Refuse Compactor Trucks:** Tender documents at SCM for HDI Scoring

**Purchase of 3 Refuse Compactor Trucks:** Tender documents at SCM for HDI Scoring

**Purchase of 2 x LDV Bakkie's:** Tender documents at SCM for HDI Scoring

**Purchase of 1 X Load Lugger:** Tender documents at SCM for HDI Scoring

**Vehicles for Solid Waste Supervisors, Safety Officers, District Cleansing Officers and Superintendents -(9 X Sedans, 8 LDV's, 3 X Double Cabs, 2X3 Ton Trucks (Inland, Midlands and Coastal Areas):** Tender documents at SCM for HDI Scoring

**Regional Waste Disposal Site:** Engineering - Roads Department is finalizing the purchasing of material. Roadwork will commence on 1/11/2011

Corrective measures for all the above Solid Waste Management projects - Request Supply Chain Management to speed up the processes

### **Health Services**

**Upgrading of clinics – extension of Ginsberg:** The upgrading of Ginsberg clinic was awarded to Life Connections Manufacturing and Supply contractor. The extension is slow in spite of the time frames set. If exceeded, deadline penalties will apply.

Corrective measures - Weekly meetings (x6) at the site have been convened to monitor the progress. 2 x warning letters have been issued to the contractor by the department concerned to reinforce the importance of pulling up their socks. Only one payment so far that has been paid towards the contractor by Finance Department

### **Arts & Cultural Services, Amenities, Environmental Services**

As per info received from PMU, delays have been experienced with the contractor in respect of the structural steelwork at the Scenery Park Community Hall due to strikes experienced in the Metal Industry. Further to this there were small design changes requested by the Engineer. Apparently manufacturing has commenced.

**Sportsfields:** In the case of projects that have no expenditure to date, the delays in implementing the projects is that SCM have provided no feedback on the placing of the items on the agenda of the BSC. Despite follow ups and e-mails to SCM, no feedback is given.

Projects that have movement in terms of expenditure are currently in the implementation phase, but payments are yet to be processed, thus expenditure will increase in the next quarter.

Corrective measures - Several follow ups were made with SCM, and more follow ups will be made to try to obtain cooperation. The problem is complicated due the fact that documents have been lost by SCM officials or misplaced in the past. SCM officials also refuse to sign for the receipt of tender documents.

**Development of Community Parks (Mdantsane, Potsdam, Reeston):** First quarter used for the identification of land and preparation of tender.

Corrective measure -To ensure that works starts within the second quarter.

**Development of 3 New Cemeteries (Inland, Midland and Coastal):** First quarter used for the identification of land and preparation of tender.

Corrective Measure - Ensure that service provider is appointed and that works starts within second quarter.

**Fencing of Rural Cemeteries Upgrade:** Tender 84 cannot be utilised and the fencing will be done internally by Building Maintenance for 2 Needs Camp cemeteries.

**Grass Cutting Equipment:** An amended request has been received to call for informal tenders and will be submitted in due course to SCM for the purchase of grass cutting equipment.

**Continuation of refurbishment of KWT Hall:** Phase 1 adjudication incomplete. Phase 2: requisitions P291406, P291407 & P291408 issued. Balance await adjudication.

**Upgrading of Beacon Bay Library:** Requisitions P291409 & P291410 issued. Balance await adjudication.

### **Development Facilitation and Partnership**

**Construction of BRT Lanes:** (R180m - PTIS) This project requires the appointment of a full team of consultants. The tender was previously awarded through the Organ of State process, but this was cancelled and the tender was advertised on 20 May 2011. The tender has been assessed and has progressed through the Bid Evaluation Committee and must be considered by the Bid Adjudication Committee.

**Taxi Ranks:** (USDG – R5m) The tender for the appointment of Consultants for the design of the Public Transport Facilities in King Williams Town was advertised on 12 August 2011 and closed on 26 August 2011. Tenders have been evaluated and the report has progressed through the Bid Evaluation Committee. Once the appointment is confirmed by the Bid Adjudication Committee, detailed designs will commence. Once designs are completed, the consultant team will prepare tender documents for the construction phase for the outer years.

**Gonubie Main Road:** (USDG – R10m) Consultants have been appointed for detailed designs and work is in progress. Once the designs are finalized, tender documents will be prepared for construction.

## **4.4 EXPENDITURE ON CONDITIONAL GRANTS - DORA ALLOCATION**

### **DoRA Current Allocation**

The 2011/12 financial year approved budget includes conditional grants DoRA current allocation of R631.58 million. The total expenditure on conditional grants DoRA current allocation as at 30 September 2011 amounts to R25.31 million which is 4% of R631.58 million. It is anticipated that the expenditure pattern will improve as the year progress as directorates were still engaged with the procurement processes in the first quarter of the financial year. Comments on the under expenditure will be disclosed in the detailed report to the Council.

Table 11 below reflects the year to date expenditure on 2010/11 Conditional Grants (DoRA current allocation).

**Table 11: Actual Expenditure per Funding against Budget**

<b>Funding/Grant</b>	<b>2011/2012 Approved Budget</b>	<b>YTD Expenditure R</b>	<b>Variance R</b>	<b>% Expenditure vs. Budget</b>
Department of Water affairs	1 680 000	400 853	1 279 147	24%
Electricity Demand Side Management	4 000 000	0	4 000 000	0%
DoE(Integrated National Electrification Programme)	21 000 000	0	21 000 000	0%
Finance Management Grant	1 450 000	213 507	1 236 493	15%
Urban Settlement Development Grant	423 446 097	24 692 372	398 753 725	6%
Public Transport Infrastructure Grant	180 000 000	0	180 000 000	0%
<b>TOTAL</b>	<b>631 576 097</b>	<b>25 306 732</b>	<b>606 269 365</b>	<b>4%</b>

**Comments on DoRA under-expenditure****a) Department of Water Affairs (DWA)**

Expenditure is in line with the DWA staff transfer agreement.

**b) Electricity Demand Side Management**

An order was placed for 2000 energy lights, which were delivered at the end of September 2011. The installation of these lights is now taking place. Invoices for the lights that have been delivered are being processed for payment.

**c) Integrated National Electricity Provider**

The Electricity Department has four housing electrification projects and one bulk project, the continuation of the Queens park Zoo substation project in the 2011/2012 financial year detailed in table 12 below:

**Table 12: INEP Funded Projects Status**

<b>Project Name</b>	<b>Proposed Connections</b>	<b>Project Name</b>	<b>Allocation Per Project</b>	<b>STATUS</b>
<b>ELECTRIFICATION</b>				
Cambridge Ext	198	Cambridge Ext	R 1 445 400.00	Report at Bid Evaluation Committee for final approval
Reeston PH3	200	Reeston PH3	R 1 460 000.00	Bid Adjudication Committee has resolved the appointment of the Contractor
Potsdam Area P	900	Potsdam Area P	R 6 570 000.00	Evaluation report is in the final stage of completion
Kwa Cliff	350	Kwa Cliff	R2 310 000.00	Appointment Contractor is not willing to commit to the Contract. Contract to be re-advertised
<b>BULK</b>				
New Zoo Substation Ph 2	1	New Zoo Substation Ph 2	R 9 141 452.00	Payment certificate for R1, 890,000.00 is being processed. Work on site is proceeding well
<b>TOTAL ALLOCATION</b>			<b>R 21 000 000. 00</b>	

**d) Finance Management Grant**

The funding will to be utilized as follows: Payment for Interns' salaries on a monthly basis; Training requirements and the maintenance of the Budget Reforms System. The training has not yet taken place, however all the plans are in place to complete it within the financial year. Other projects are progressing well and the funding will be fully utilized at the end of the

financial year.

#### e) Urban Settlement Development Grant

##### **Municipal Services**

###### ***Solid Waste Management Services***

***Solid Waste Management:*** Letter of award has been sent to the Service Provider. Supply Chain Management awaiting confirmation of acceptance.

###### ***Health Services***

***Construction of Greenfields Clinic:*** The Tender Advert was only closing on the 4<sup>th</sup> of October 2011. The opening of the documents the 14<sup>th</sup> of October 2011, so the construction of the building has not yet started where expenditure can be monitored.

###### ***Amenities***

***Sports facilities coastal and inland:*** Specification documents were submitted to Supply Chain Management (SCM) in July 2011. Subsequent to this SCM advised the department to advertise the various projects as informal tenders, because the projects are for various facilities in coastal and inland area and not specific to one facility. These informal tender forms will be submitted to SCM by 21<sup>st</sup> October 2011.

###### ***Environmental Services***

***Development of Community Parks (Mdantsane, Potsdam, Reeston):*** First quarter used for the identification of land and preparation of tender.

Corrective measure -To ensure that works starts within the second quarter.

***Development of 3 New Cemeteries (Inland, Midland and Coastal):*** First quarter used for the identification of land and preparation of tender.

Corrective Measure - Ensure that service provider is appointed and that works starts within second quarter.

###### ***Arts & Cultural Services***

As per info received from PMU, delays have been experienced with the contractor in respect of the structural steelwork at the Scenery Park Community Hall due to strikes experienced in the Metal Industry. Further to this there were small design changes requested by the Engineer. Apparently manufacturing has commenced.

##### **Development Facilitation and Partnership**

***Taxi Ranks:*** The tender for the appointment of Consultants for the design of the Public Transport Facilities in King Williams Town was advertised on 12 August 2011 and closed on 26 August 2011. Tenders have been evaluated and the report has progressed through the Bid Evaluation Committee. Once the appointment is confirmed by the Bid Adjudication Committee, detailed designs will commence. Once designs are completed, the consultant team will prepare tender documents for the construction phase for the outer years.

***Gonubie Main Road:*** Consultants have been appointed for detailed designs and work is in progress. Once the designs are finalized, tender documents will be prepared for construction.

#### f) Public Transport Infrastructure Grant

A detailed Operational Plan was approved by Council on 6 May 2010. This Operational Plan forms the primary planning document on which more detailed designs will be based. Further

work is required to be carried out by service providers such as project management, communications and marketing, business planning, operational planning, architecture, structural, electrical, mechanical and electronic engineering, quantity surveying, town planning, environmental and legal services prior to the implementation of physical infrastructure. The tender for the appointment of the full team of service providers was advertised and closed on 20 May 2011. The tender is currently at the Bid Adjudication Stage.

## **5. CHALLENGES**

The collection rate that is not up to the required level will have a direct effect on the municipality's cash flow situation and its ability to fund new capital infrastructure developments as well as maintenance and the enhancement of the existing infrastructure.

If non or low spending on conditional grants does not improve it will be a challenge taking into account circular 51, 54 and 55 of the MFMA which states that the unspent conditional grants at financial year end should be transferred back to the National Transferring Office unless the Municipality can motivate to the satisfaction of National Treasury that the unspent conditional grants are committed to identifiable projects.

Each municipality must repay all unspent conditional allocation, in respect of which National Treasury has not given the municipality written permission to retain. If the municipality fails to repay such unspent grants the National Treasury will offset such amount against the Municipality's Equitable Share Allocation.

BCMM will therefore not be able to roll-over unspent conditional grants to the 2012/13 financial year if there are any until a written approval from the National Treasury has been received. BCMM will not be able to spend unspent conditional grants that have been rolled over until they are re-appropriated in a National Adjustment Budget passed by Parliament and thereafter by a Municipal Adjustment Budget in terms of Section 28(2) (b) of the MFMA and Regulation 23(3) of the Municipal Budget and Reporting Regulations.

## **6. FINANCIAL IMPLICATIONS**

If the low collection rate does not improve it will have a direct effect on the cash flow of the Municipality and its ability to fully meet its financial obligations. Low expenditure rate on grants will have a negative effect on future grant (conditional and unconditional) allocations to BCMM.

**7. RECOMMENDATION**

It is recommended that:

- a) Council note the report on the statement of financial performance and the implementation of the 2011/12 budget for the quarter ending 30 September 2011, in terms of Section 52 (d) of the MFMA.

**Councilor Z. Ncitha**  
**EXECUTIVE MAYOR**

**DATE:**

## **ANNEXURES:**

### **Annexure A**

- C1 Monthly Budget Statement - Summary
- C2 Monthly Budget Statement - Financial Performance (Std Classification)
- C3 Monthly Budget Statement - Financial Performance (By Municipal Vote)
- C4 Monthly Budget Statement - Financial Performance (Revenue and Expenditure)
- C5 Monthly Budget Statement - Capital Expenditure (Municipal Vote, Std Classification and Funding)
- C6 Monthly Budget Statement - Financial Position
- C7 Monthly Budget Statement - Cash Flow

### **Annexure B**

- SC1 Material Variance Explanation
- SC2 Performance Indicators
- SC3 Aged Debtors
- SC4 Aged Creditors
- SC5 Investment Portfolio
- SC6 Transfers and Grants Receipts
- SC7 Transfers and Grants Expenditure
- SC8 Councillor and Staff Benefits
- SC9 Actuals and Revised Targets for Cash Receipts
- SC12 Capital Expenditure trend
- SC13a Capital Expenditure on New Assets by Class
- SC13b Capital Expenditure on Renewal of Existing Assets by Class
- SC13c Expenditure on Repairs and Maintenance by Asset Class

### **Annexure C**

Service Delivery and Budget Implementation Plan

### **Annexure D**

Schedule of Operating Projects

### **Annexure E**

Schedule of Capital Projects

### **Annexure F**

Schedule of Borrowings

### **Annexure G**

Quality Certificate