

REPORT TO COUNCIL: 27 OCTOBER 2009
OFFICE OF THE EXECUTIVE MAYOR

STATEMENT OF FINANCIAL PERFORMANCE AND THE IMPLEMENTATION OF THE
2009/10 BUDGET FOR THE QUARTER ENDING 30 SEPTEMBER 2009

1. BACKGROUND

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.

Compliance

The September 2009 Monthly Statement of Financial Performance in terms of section 71 (1) of the MFMA was submitted to the Executive Mayor on 14 October 2009.

The current report approaches the Review in the following order:

- 2. Executive Summary of Quarterly Performance and Budget Implementation**
- 3. Statement of Financial Performance**
- 4. Capital Expenditure**
- 5. Expenditure on DoRA Allocation**
- 6. Restructuring Grant**
- 7. Recommendation**

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2. EXECUTIVE SUMMARY OF QUARTERLY PERFORMANCE AND BUDGET IMPLEMENTATION

The period being assessed is for the quarter ending 30 September 2009.

Table 1: Performance Summary

<u>Financial</u>		<u>Cash Management</u>	
Estimated Operating surplus for the period	R 58,722,674	Cash on hand	R 77,522,253
Debtors collection ratio (12 Months Average)	93.42%	Total value of investments	R 673,946,025
YTD all grants and subsidies	R 167,697,749	Total investments - own funds	R 231,513,189
Creditors days	29.00	Total conditional grants	R 442,432,836
Current ratio	1.5:1	Total Loans	R 567,379,297
<u>Overall Operating results</u>		<u>Surplus per Service</u>	
Income	R 695,889,568	Water	R11,754,058
Expenditure	R 634,554,412	Electricity	(R11,856,834)
Transfer to & from Reserves	(2,612,482)	Refuse	R23,818,728
Estimated Surplus	R 58,722,674	Sewerage	R39,493,814
<u>Debtors</u>		<u>Operating Projects Expenditure 09/10</u>	
Total debtors book	R 362,306,580	Operating Expenditure as a % of total approved adjusted budget	5%
Total debt written off	R 809,930		
Year to date collection	R 392,229,049		
<u>Capital Expenditure 08/09</u>		<u>Capital Expenditure 09/10</u>	
Capital Expenditure as a % of total approved budget	3%	Capital Expenditure as a % of total approved budget	3%
<u>Human Resources</u>		<u>Human Resources</u>	
Staff appointments	173	Number of funded vacant posts	437
Staff terminations	57	Salary bill - Councilors	R 4,523,002
Total staff complement	4,536	Salary bill - Officials	R 179,922,630
Total overtime paid for the month	R 4,999,550	Workforce costs as a % of income	26.5%

Comments on Executive Summary of Quarterly Performance and Budget Implementation

- The overall operating results for the period ending 30 September 2009 indicate a surplus of R58.72 million on accrual basis.
- The average debtors collection rate for the twelve months ending 30 September 2009 is 93.42%.
The collection rate for the three months ending 30 September 2009 is 78.59%. The collection rate for the three months has slightly decreased when compared to the same period in the previous financial year due to the current global economic climate (2008/09 – 80.19%).
- Actual personnel costs expressed, as a percentage of actual operating income for the period is 26.5%. The total staff complement is 4,536. There were 173 new appointments made and 57 terminations.
- Creditor's payment days stands at 29 days. The current ratio being the City's current assets to current liabilities is 1.5:1. The current ratio has decreased over that past year. Refer to **section 6** of the report as well as **annexure SC2**.
- As at 30 September 2009 the cash flow of the City reflects a favourable net primary bank balance of R77.52 million and own investments of R231.51 million. Due to the current global economic climate, the City has experienced a decrease in its revenue collection. This has a negative impact on the City's cash reserves. The net increase in cash reserves for the three months ending 30 September 2009 is R49.4 million as compared to the projection of R73.9 million. (Refer to **annexure C7 and SC5**).
- Total debtors outstanding as at 30 September 2009 amounts to R362.31 million. Debt written-off during the period amounted to R0.81 million. This is debt older than 3 years that is irrecoverable.
- The total accumulative amount borrowed by Council as at 30 September 2009 amounts to R567.38 million (Refer to **annexure A**).

3. STATEMENT OF FINANCIAL PERFORMANCE FOR THE QUARTER ENDED 30 SEPTEMBER 2009

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 quarter.

Table 2: Statement of Financial Performance for the quarter ended 30 September 2009

EC125 Buffalo City - Table C4 Consolidated Monthly Budget Statement - Financial Performance (revenue and expenditure) - M03 September										
Description	Ref	2008/09	Budget Year 2009/10							
		Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands										
Revenue By Source										
Property rates		363,583	409,056	409,056	54,095	128,843	128,179	664	1%	409,056
Property rates - penalties & collection charges								-		-
Service charges - electricity revenue		609,722	838,592	838,592	65,608	188,200	197,699	(9,499)	-5%	838,592
Service charges - water revenue		181,117	203,835	203,835	16,551	50,647	50,403	244	0%	203,835
Service charges - sanitation revenue		128,514	142,661	142,661	15,550	46,764	45,257	1,507	3%	142,661
Service charges - refuse revenue		124,506	138,033	138,033	11,410	35,087	36,120	(1,033)	-3%	138,033
Service charges - other								-		-
Rental of facilities and equipment		12,750	10,469	10,469	1,064	2,199	2,617	(418)	-16%	10,469
Interest earned - external investments		85,519	18,382	18,382	4,675	10,242	4,595	5,647	123%	18,382
Interest earned - outstanding debtors		35,093	36,905	36,905	2,613	8,018	9,226	(1,209)	-13%	36,905
Dividends received		165	54	54	-	-	14	(14)	-100%	54
Fines		7,058	8,744	8,744	727	2,578	2,186	393	18%	8,744
Licences and permits		12,250	12,628	12,628	890	3,192	3,157	35	1%	12,628
Agency services								-		-
Transfers recognised - operational		85,440	365,724	361,973	9,073	16,714	90,493	(73,780)	-82%	361,973
Other revenue		644,290	585,372	585,372	7,816	203,405	211,822	(8,418)	-4%	585,372
Gains on disposal of PPE		3,384	-	-	-	-	-	-		-
Total Revenue (excluding capital transfers and contributions)		2,293,391	2,770,456	2,766,705	190,071	695,890	781,769	(85,880)	-11%	2,766,705
Expenditure By Type										
Employee related costs		656,676	794,449	794,449	62,428	179,923	198,612	(18,690)	-9%	794,449
Remuneration of councillors		19,359	23,200	23,200	1,570	4,523	5,800	(1,277)	-22%	23,200
Debt impairment		131,527	69,726	69,726	5,811	17,432	17,432	-		69,726
Depreciation & asset impairment		305,905	342,553	342,553	28,546	85,638	85,638	-		342,553
Finance charges								-		-
Bulk purchases		466,747	642,679	642,679	67,139	206,760	201,580	5,180	3%	642,679
Other materials								-		-
Contracted services		4,493	7,137	7,037	217	333	1,759	(1,426)	-81%	7,037
Transfers and grants		4,583	5,302	5,302			1,325	(1,325)	-100%	5,302
Other expenditure		679,031	1,034,173	1,030,522	45,164	139,945	257,631	(117,685)	-46%	1,030,522
Loss on disposal of PPE								-		-
Total Expenditure		2,268,320	2,919,220	2,915,469	210,875	634,554	769,777	(135,223)	-18%	2,915,469
Surplus/(Deficit)										
		25,071	(148,764)	(148,764)	(20,804)	61,335	11,992	(221,103)	(0)	(148,764)
Transfers recognised - capital		71,701	148,883	148,883	(2,851)	(2,612)	37,221			148,883
Contributions recognised - capital										
Contributed assets										
Surplus/(Deficit) after capital transfers & contributions		96,772	119	119	(23,655)	58,723	49,213			119
Taxation								-		
Surplus/(Deficit) after taxation		96,772	119	119	(23,655)	58,723	49,213			119
Attributable to minorities										
Surplus/(Deficit) attributable to municipality		96,772	119	119	(23,655)	58,723	49,213			119
Share of surplus/ (deficit) of associate										
Surplus/ (Deficit) for the year		96,772	119	119	(23,655)	58,723	49,213			119

The method of estimating the Budget is:

- Grants, rates and service charges – historical income trends
- Other Income – one quarter of the Annual Budget
- Electricity and Water bulk purchase – seasonal trends
- Expenditure (excluding Electricity and Water Bulk purchases) – one quarter of the Annual Budget.

Notes to the Statement of Financial Performance 30 September 2009

Note 1: Other Revenue

Other revenue which is made up of numerous miscellaneous items reflects a cash inflow of R203.41 million as against an estimated budget of R211.87 million. Included in the other revenue received to date is an amount of R167.70 million in respect of Grants and Subsidies.

Note 2: Employee Related Costs

The Basic Salaries and Wages were under spent by 9.41%. This is due to vacant funded posts that are not yet filled by the various Directorates

Analysis of Overtime

Overtime	2009/2010 Annual Budget R	2009/2010 YTD Budget R	2009/2010 YTD Expenditure R	2009/2010 Variance R	2009/2010 Variance %
Directorate of Executive Support Services	129,378	32,345	178,136	(145,792)	(450.75)
Directorate of The Municipal Manager	17,734	4,434	15,113	(10,680)	(240.88)
Directorate of Chief Operations Officer	21,454	5,364	36,206	(30,842)	(575.04)
Directorate of Finance	754,047	188,512	120,475	68,037	36.09
Directorate of Corporate Services	376,990	94,248	56,864	37,384	39.67
Directorate of Engineering Services	6,346,617	1,586,654	2,641,536	(1,054,882)	(66.48)
Directorate of Development Planning	607,990	151,998	101,606	50,392	33.15
Directorate of Community Services	13,012,099	3,253,025	4,881,391	(1,628,366)	(50.06)
Directorate of Health and Public Safety	5,239,161	1,309,790	1,719,947	(410,157)	(31.31)
Total	26,505,470	6,626,368	9,751,274	(3,124,907)	(47.16)

COMMENTS FROM DIRECTORATES ON OVER/UNDER EXPENDITURE ON OVERTIME

(a) DIRECTORATE OF COMMUNITY SERVICES

Arts and Cultural Services

Most hall bookings are after hours/over weekends resulting in excessive overtime. It is essential that the overtime is worked as this is a service to the public.

Amenities

The Amenities facilities are open to the public 7 days a week, and public holidays resulting in excessive overtime. It is essential that the overtime is worked as these facilities offer services to the public. Cleaned on a daily basis, staff must be on duty to see to these functions and monitor the animals at the Zoo. On weekends and public holidays work on skeleton staff in order to minimize overtime.

Solid Waste Management Services

Shortfall on overtime votes will be normalized within the financial year to avoid over – expenditure.

(b) **DIRECTORATE OF HEALTH & PUBLIC SAFETY**

Health

Staff have to visit initiates after hours and on weekends to ensure compliance with the Application of Health Standards in Traditional Circumcision Act, 6 of 2001 (Eastern Cape), seasonally, being winter and summer seasons. Memo dated 26/02/2009 was written to request the creation of an overtime vote and the allocation of funds thereto. Nursing staff assist Traffic Department on weekends with their "DIC" campaigns.

Public Safety

The large over-expenditure on overtime for Public Safety has resulted because of the back-pay to the traffic & law enforcement staff due to the change in the working hours. It is felt that this needs to be addressed and that the budget be adjusted accordingly, otherwise it will result in the overtime being grossly overspent for the rest of the financial year.

Note 3: Repairs and Maintenance

Repairs & Maintenance	2009/2010 Annual Budget R	2009/2010 YTD Budget R	2009/2010 YTD Expenditure R	2009/2010 Variance R	2009/2010 % of the YTD Budget
Directorate of Executive Support	1,584,548	396,137	33,685	362,452	8.50
Directorate of The Municipal Manager	39,534	9,884	7,812	2,072	79.04
Directorate of Chief Operations Officer	20,500	5,125	15,275	(10,150)	298.06
Directorate of Finance	15,899,327	3,974,832	195,810	3,779,021	4.93
Directorate of Corporate Services	3,743,680	935,920	749,338	186,582	80.06
Directorate of Engineering Services	140,563,822	35,140,956	25,648,022	9,492,934	72.99
Directorate of Development Planning	10,278,749	2,569,687	1,946,632	623,056	75.75
Directorate of Community Services	13,807,408	3,451,852	1,881,366	1,570,486	54.50
Directorate of Health and Public Safety	4,434,595	1,108,649	629,054	479,595	56.74
TOTAL	190,372,163	47,593,041	31,106,993	16,486,048	65.36

Other expenditure includes repairs and maintenance as reflected in the table above.

Repairs and Maintenance expenditure efficiency ratio for the quarter ending 30 September 2009 is 65.36% (R31.11 million). This indicates an increase in expenditure pattern when compared to the previous financial year (2008/2009: 51.71%). The expenditure is generally on track and is expected to improve as the year progress. It is anticipated that the Directorate of Chief Operating Officer will exceed the budget for this financial year. Refer to **annexure SC13c**.

Operational Projects

Projects	2009/2010 Annual Budget R	2009/2010 YTD Budget R	2009/2010 YTD Exp R	2009/2010 Variance R	2009/2010 % Annual Budget
Directorate of Executive Support Services	41,650,618	10,412,655	2,232,588	8,180,067	5.36
Directorate of The Municipal Manager	90,000	22,500	0	22,500	0.00
Directorate of Chief Operations Officer	3,556,493	889,123	70,637	818,486	1.99
Directorate of Finance	17,176,231	4,294,058	1,669,947	2,624,111	9.72
Directorate of Corporate Services	9,213,621	2,303,405	117,938	2,185,467	1.28
Directorate of Engineering Services	14,762,665	3,690,666	636,493	3,054,173	4.31
Directorate of Development Planning	27,529,244	6,882,311	947,279	5,935,032	3.44
Housing Projects	230,055,869	57,513,967	10,849,879	46,664,088	4.72
Directorate of Community Services	15,890,156	3,972,539	71,965	3,900,574	0.45
Directorate of Health and Public Safety	2,048,516	512,129	117,050	395,079	5.71
TOTAL	361,973,413	90,493,353	16,713,777	73,779,576	4.62

Other expenditure includes operating projects as reflected in the table above. Operating projects expenditure for the quarter ending 30 September 2009 is R16.71 million which is 4.62% of the adjusted budget and 18.47% of the projected cash flows of R90.49 million. Planning or implementation levels on major projects are detailed in **Annexure B**.

4. **CAPITAL EXPENDITURE**

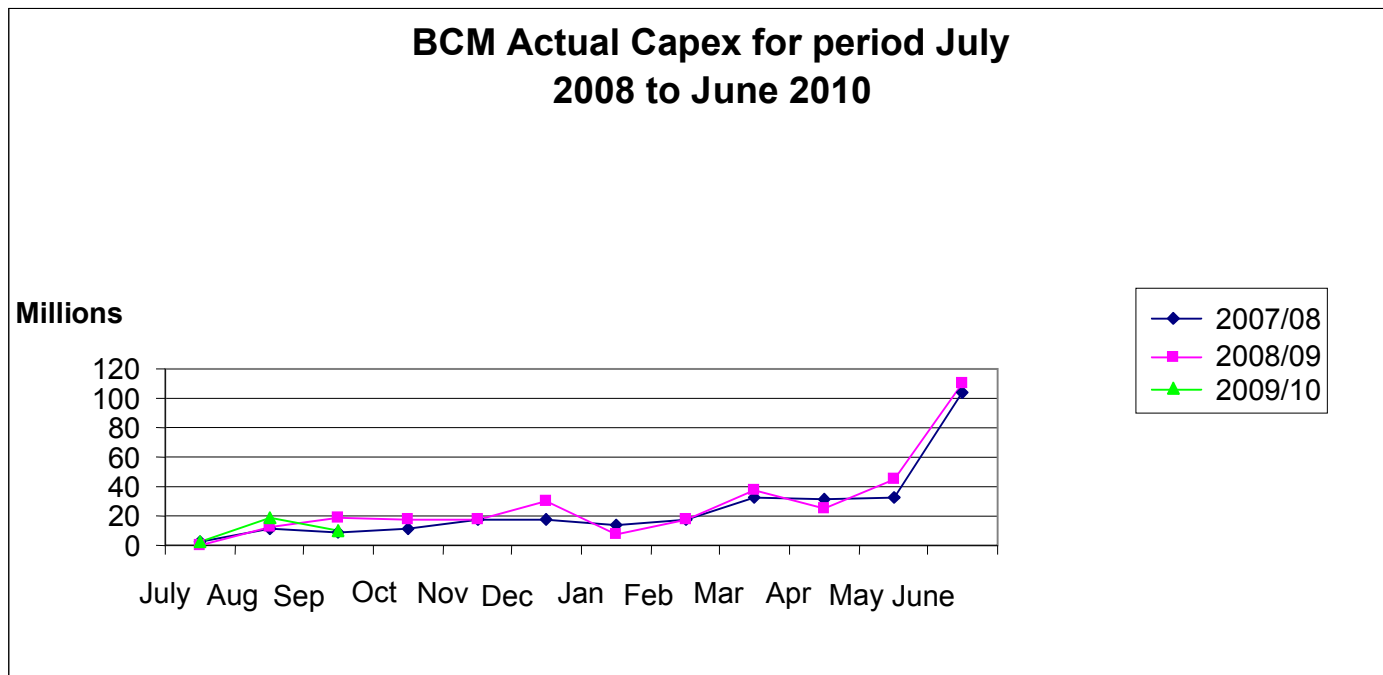
The total capital expenditure as at 30 September 2009 amounts to R31.06 million which is 3.46% of the adjusted budget for the 2009/10 financial year. The capital expenditure as at 30 September 2009 is 13.82% of the projected cash flows. Planning or implementation levels on major projects are detailed in **Annexure C**. Refer to **annexure C5, SC12, SC13a and SC13b**.

Table 3: Capital Expenditure per Funding Source

Funding Source	2009/2010 Approved	2009/2010 1st Adjusted	2009/2010 YTD Actual	YTD Exp/1st Adj. Budget
	Budget	Budget	Expenditure	%
	R	R	R	%
Own Funds	750,000	9,546,576	39,213	0.41%
Capital Replacement Reserve	172,880,675	186,360,300	5,407,073	2.90%
Development Bank of South Africa LOAN Phase 4	70,071,175	69,990,090	183,673	0.26%
Development Bank of South Africa LOAN c/o Phase 5	121,000,000	92,444,556	1,012,018	1.09%
Total Own Funding	364,701,850	358,341,522	6,641,977	1.85%
Buffalo City Metropolitan Transport	1,815,358	1,342,050	0	0.00%
Depart of Econ Dev, Environ Affairs and Tourism	700,000	153,166	34,391	22.45%
Department of Land Affairs	2,082,276	2,070,676	9,575	0.46%
Dept of Sports Arts & Culture	50,000,000	48,716,533	388,728	0.80%
Department of Science and Technology	3,390,580	3,390,580	0	0.00%
Development Bank of South Africa Grant	51,078	51,078	0	0.00%
Department of Water Affairs	533,967	358,742	0	0.00%
Eastern Cape Development Co-Op	344,272	344,272	0	0.00%
European Commission	80,156,747	40,276,727	4,057,797	10.07%
Municipal Electricity Provider	35,327,718	13,013,018	3,568	0.03%
Leiden Platform	4,186,910	4,142,570	0	0.00%
Department of Local Government and Housing	121,977,719	110,372,811	7,477,121	6.77%
Lotto	344,555	344,555	0	0.00%
Municipal Infrastructure Grant	291,988,094	255,923,455	12,445,752	4.86%
Neighbourhood Funding	15,643,000	18,043,000	0	0.00%
Disaster Management Fund	3,299,363	3,274,719	285	0.01%
Public	1,914,618	1,914,618	0	0.00%
Public Transport Infrastructure Grant	36,772,997	36,589,804	0	0.00%
Swedish International Development Agency c/o	52,994	6,329	0	0.00%
Total Grant Funding	650,582,246	540,328,703	24,417,217	4.52%
Total Capital - All Funding	1,015,284,096	898,670,225	31,059,194	3.46%

Figure 1 below compares the Actual Capital Expenditure per month for the quarter ending 30 September 2009 against the same period in 2007/2008 and 2008/2009 financial years.

Figure 1



The actual capital expenditure for the month of September 2009 has increased when compared to the same period in 2007/2008 and decreased when compared to 2008/2009.

Table 2 identifies the actual Capital Expenditure per Directorate against budget.

Table 4: Actual Expenditure per Directorate against Budget

Directorate	2009/2010 Approved Budget	2009/2010 1st Adjusted Budget	2009/2010 YTD Actual Expenditure	YTD Exp/1st Adj. Budget
	R	R	R	%
Directorate of Executive Support	77,927,072	85,223,691	1,458,578	1.71%
Directorate of Municipal Manager	54,328	54,328	39,750	73.17%
Directorate of Chief Operations Officer	142,977,719	122,372,811	7,477,121	6.11%
Directorate of Finance *	14,853,528	14,891,518	641,194	4.31%
Directorate of Corporate Services	7,935,040	8,018,622	200,946	2.51%
Directorate of Engineering	499,082,271	458,746,787	17,154,449	3.74%
Directorate of Development Planning	105,566,255	93,508,435	1,233,558	1.32%
Directorate of Community Services	118,061,787	69,968,451	2,068,431	2.96%
Directorate of Public Safety and Health	48,826,096	45,885,580	785,163	1.71%
TOTAL	1,015,284,096	898,670,223	31,059,190	3.46%

* Note: That the budget for the Directorate of Finance includes an amount of R2.1 million for Insurance Asset Replacement for the entire Buffalo City Municipality.

Table 3 below gives a breakdown of the spending per Service.

Table 5: Spending per Service

Services	2008/2009 Approved Budget	2008/2009 1st Adjusted Budget	2008/2009 YTD Actual Expenditure	YTD Exp/1st Adj. Budget
	R	R	R	%
Water	100,283,918	87,056,894	5,844,628	6.71%
Waste Water	140,900,568	146,624,506	5,832,078	3.98%
Electricity	78,918,718	57,031,599	259,861	0.46%
Roads and Stormwater	142,489,414	132,072,918	5,210,740	3.95%
Housing	125,477,719	113,372,811	7,477,121	6.60%
Transport Planning	86,654,039	70,999,907	344,586	0.49%
Cleansing	61,221,393	14,898,712	204,935	1.38%
Amenities	52,626,524	51,421,532	1,676,414	3.26%
Environmental Services	8,554,870	9,489,207	187,083	1.97%
Health Services	1,495,445	1,451,003	125,071	8.62%
Public Safety	46,609,451	43,813,377	656,161	1.50%
Support Services	101,269,968	108,688,159	2,340,469	2.15%
Other	68,782,068	61,749,599	900,046	1.46%
TOTAL	1,015,284,095	898,670,224	31,059,193	3.46%

5. **EXPENDITURE ON DORA ALLOCATION**

In the 2009/10 financial year approved budget an amount R242.2 is from the DoRA allocation. The total expenditure on DoRA allocation as at 30 September 2009 amounts to R3.4 million which is 1% of R242.2 million. Refer to **annexure SC6 and SC7**.

The table below reflects the year to date expenditure on 2009/10 DoRA allocation.

Funding per 2009/10 DoRA	Adjusted Budget 2009/2010	Expenditure 2009/2010	Variance 2009/2010	% Expenditure vs Adj. Budget 2009/2010
Department of Water Affairs	7,139,270	0	7,139,270	0%
Finance Management Grant	750,000	9,632	740,368	1%
Municipal Electricity Provider	13,000,000	0	13,000,000	0%
Municipal Infrastructure Grant	178,550,660	3,406,308	175,144,352	2%
Neighbourhood Funding	11,543,000	0	11,543,000	0%
Public Transport Infrastructure Grant	31,213,000	0	31,213,000	0%
TOTAL	242,195,930	3,415,940	238,779,990	1%

6. RESTRUCTURING GRANT MILESTONES

Financial Performance Indicators

Reporting Period:		Quarter ended 30 September 2009			
Indicator		Target	Actual	Variance	Comment
1.	Total Debt to Annual Income:	35%	24.4%	10.6%	The long term liabilities of the City amounts 24.4% of the annual revenue generated and is within the target.
2.	Capital Charges to Op. Exp:	16%	13.5%	2.5%	Capital Charges are 13.5% of the total operating expenditure and is within the expected target.
3.	Annual Collection Rate (Debtors):	97%	93.4%	-3.6%	The annual collection rate is below the desired target of 97%. This is due to the global economic climate.
4.	Net Debtors to Annual income:	18%	13.1%	4.9%	A net debtor to annual income 13.1 % and is within the target.
5.	Personnel Costs to Total Income:	30%	26.5%	3.5%	The city has been maintaining its personal costs within the target set by National Treasury.
6.	Creditors Days:	30	29	1	The city maintains its policy to pay its top 20 creditors within 30 days.

7. RECOMMENDATION

It is recommended:

1. That the statement of financial performance and the implementation of the 2009/2010 budget for the quarter ending 30 September 2009 be adopted in terms of the MFMA.

Councilor Z. Faku
EXECUTIVE MAYOR

DATE: _____