

**REPORT TO THE EXECUTIVE MAYOR: 14 SEPTEMBER 2011**  
**OFFICE OF THE ACTING CITY MANAGER**

**STATEMENT OF FINANCIAL PERFORMANCE AND THE IMPLEMENTATION OF THE**  
**2011/2012 BUDGET FOR THE PERIOD ENDING 31 AUGUST 2011**

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

**1. PURPOSE**

The purpose of the report is for Executive Mayor to note the statement of financial performance and the implementation of the 2011/12 budget of the Municipality for the period ending 31 August 2011, and take cognisance of the collection rate and the expenditure rate on the projects.

**2. AUTHORITY**

In terms of Section 71(1), (2) and (3) of the MFMA No 56, 2003 Chapter 8, the Accounting Officer of a municipality must by no later than 10 working days after the end of each month submit to the Mayor of the municipality and the relevant provincial treasury a statement on the financial performance of that municipality.

**3. LEGAL / STATUTORY REQUIREMENTS**

Municipal Finance Management Act No 56, 2003 Chapter 8, Section 71 (1), (2) and (3).

**4. EXPOSITION OF FACTS**

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

- 4.1 Statement of Financial Performance**
- 4.2 Operating Projects Expenditure**
- 4.3 Capital Expenditure**
- 4.4 Expenditure on Conditional Grants - DoRA Allocation**
- 4.5 Restructuring Grant Milestones**

#### 4.1 STATEMENT OF FINANCIAL PERFORMANCE

The Statement of Financial Performance presented below, compares the expenditure and revenue on accrual basis against budget for the period ending 31 August 2011 (refer to annexure A - C4).

**Table 1: Statement of Financial Performance for the period ending 31 August 2011**

EC125 Buffalo City - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M02 August														
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		66,082	78,441	107,314	(28,873)	-27%	520,511				
Property rates - penalties & collection charges			1,236		52	104	115	(11)	-10%	1,236				
Service charges - electricity revenue			1,142,652		109,539	200,523	165,268	35,255	21%	1,142,652				
Service charges - water revenue			233,283		23,056	41,051	65,011	(23,960)	-37%	233,283				
Service charges - sanitation revenue			180,203		16,385	28,064	7,175	20,889	291%	180,203				
Service charges - refuse revenue			173,905		14,749	29,369	29,920	(551)	-2%	173,905				
Service charges - other			22,539		1,891	6,687	4,714	1,972	42%	22,539				
Rental of facilities and equipment			12,759		711	1,349	1,175	174	15%	12,759				
Interest earned - external investments			30,192		3,278	3,876	4,566	(690)	-15%	30,192				
Interest earned - outstanding debtors			22,036		1,940	3,910	3,777	132	3%	22,036				
Dividends received			60		-	-	-	-	-	60				
Fines			10,657		730	1,155	1,436	(281)	-20%	10,657				
Licences and permits			15,391		1,830	2,789	2,785	4	0%	15,391				
Agency services			-		-	-	-	-	-	-				
Transfers recognised - operational			966,570		5,273	248,765	268,293	(19,528)	-7%	966,570				
Other revenue			321,296		72,105	77,740	53,675	24,065	45%	321,296				
Gains on disposal of PPE			-		-	-	-	-	-	-				
<b>Total Revenue (excluding capital transfers and contributions)</b>			<b>-</b>		<b>3,653,289</b>		<b>-</b>		<b>317,620</b>	<b>723,823</b>	<b>715,226</b>	<b>8,597</b>	<b>1%</b>	<b>3,653,289</b>
<b>Expenditure By Type</b>														
Employee related costs			983,308		70,810	139,962	159,320	(19,358)	-12%	983,308				
Remuneration of councillors			28,871		2,120	4,443	4,311	131	3%	28,871				
Debt impairment			165,450		13,788	27,575	13,788	13,788	100%	165,450				
Depreciation & asset impairment			473,248		39,437	78,875	39,437	39,437	100%	473,248				
Finance charges			67,067		5,589	11,178	5,589	5,589	100%	67,067				
Bulk purchases			940,528		106,467	217,539	230,240	(12,700)	-6%	940,528				
Other materials			-		-	-	-	-	-	-				
Contracted services			8,317		313	314	786	(473)	-60%	8,317				
Transfers and grants			3,432		-	-	291	(291)	-100%	3,432				
Other expenditure			1,256,770		65,403	110,385	132,525	(22,140)	-17%	1,256,770				
Loss on disposal of PPE			-		-	-	-	-	-	-				
<b>Total Expenditure</b>			<b>-</b>		<b>3,926,991</b>		<b>-</b>		<b>303,926</b>	<b>590,271</b>	<b>586,287</b>	<b>3,983</b>	<b>1%</b>	<b>3,926,991</b>
Off-Set Depreciation			(310,741)		(25,895)	(51,790)	(77,685)	25,895	-33%	(310,741)				
<b>Surplus/(Deficit)</b>			<b>-</b>		<b>37,039</b>		<b>-</b>		<b>39,589</b>	<b>185,342</b>	<b>206,623</b>	<b>(21,281)</b>	<b>-10%</b>	<b>37,039</b>
Transfers recognised - capital			654,418		-	-	-	-	-	-	-	-	-	654,418
Contributions recognised - capital			-		-	-	-	-	-	-	-	-	-	-
Contributed assets			-		-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>			<b>-</b>		<b>691,457</b>		<b>-</b>		<b>39,589</b>	<b>185,342</b>	<b>206,623</b>			<b>691,457</b>
Taxation			-		-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after taxation</b>			<b>-</b>		<b>691,457</b>		<b>-</b>		<b>39,589</b>	<b>185,342</b>	<b>206,623</b>			<b>691,457</b>
Attributable to minorities			-		-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) attributable to municipality</b>			<b>-</b>		<b>691,457</b>		<b>-</b>		<b>39,589</b>	<b>185,342</b>	<b>206,623</b>			<b>691,457</b>
Share of surplus/ (deficit) of associate			-		-	-	-	-	-	-	-	-	-	-
<b>Surplus/ (Deficit) for the year</b>			<b>-</b>		<b>691,457</b>		<b>-</b>		<b>39,589</b>	<b>185,342</b>	<b>206,623</b>			<b>691,457</b>

The average debtor's collection rate for the two month ending 31 August 2011 is 73.25%. The collection rate is lower than the National Treasury set target of 97%.

## **Notes to the Statement of Financial Performance for the Period Ending 31 August 2011**

### **1. Service Charges – Property Rates**

The property rates income reflects unfavorable variance due to income foregone in respect of rates discount to pensioners and rates rebates to all the residents. The income forgone is already accounted for the whole year.

### **2. Transfers Recognised – Operational**

This 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 R10 million has been recognised. The unfavourable variance is the result of under expenditure on operating projects. Comments on the under expenditure will be disclosed in the detailed report to the Council.

### **3. Other Revenue**

Other revenue is made up of numerous miscellaneous items.

### **4. Debt Impairment**

This is in respect of provision for bad debts.

### **5. Other Expenditure**

Other expenditure includes operating projects, general expenses as well as repairs and maintenance. The major contributing factor to the under expenditure of R22 million is repairs & maintenance (R17 million).

## **4.2 OPERATING PROJECTS EXPENDITURE**

Other expenditure includes operating projects as reflected in the table above. Operating projects expenditure for the period ending 31 August 2011 is R10.31 million which is 3% of the approved budget of R356.72 million. The current year's expenditure has decreased when compared to the same period in the previous financial year (2010/11: 17.39%). It is anticipated that the expenditure pattern will improve as the year progress as directorates were still engaged with the procurement processes in the second month of the financial year. Comments on the under expenditure will be disclosed in the detailed report to the Council.

## **4.3 CAPITAL EXPENDITURE**

The total capital expenditure as at 31 August 2011 amounts to R22.5 million which is 3% of the approved budget of R764.67 million for the 2011/12 financial year. The capital expenditure has decreased when compared to the previous financial year (2010/2011) which was 4%. It is anticipated that the expenditure pattern will improve as the year progress as directorates were still engaged with the procurement processes in the second month of the financial year. Comments on the under expenditure will be disclosed in the detailed report to the Council.

#### 4.4 EXPENDITURE ON 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 allocation as at 31 August 2011 amounts to R13.9 million which is 2% 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 second month of the financial year. Comments on the under expenditure will be disclosed in the detailed report to the Council.

Table 2 below reflects the year to date expenditure on 2011/12 conditional grants DoRA current allocation.

**Table 2: Spending per Funding/Grant – DoRa Current Allocation**

<u>Funding/Grant</u>	<u>2011/2012 Approved Budget</u>	<u>YTD Expenditure R</u>	<u>Variance R</u>	<u>% Expenditure vs. Budget</u>
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	146,030	1,303,970	10%
Urban Settlement Development Grant	423,446,097	13,398,727	410,047,370	3%
Public Transport Infrastructure Grant	180,000,000	0	180,000,000	0%
<b>TOTAL</b>	<b>631,576,097</b>	<b>13,945,610</b>	<b>617,630,487</b>	<b>2%</b>

#### 4.5 RESTRUCTURING GRANT MILESTONES

**Table 4: Financial Performance Indicators**

<b>Reporting Period:</b>		<b>Month ended 31 August 2011</b>			
<b>Indicator</b>		<b>Target</b>	<b>Actual</b>	<b>Variance</b>	<b>Comment</b>
1.	Total Debt to Annual Income:	35%	25.80%	9.20%	The long term a liability of the city is 25.8% of the annual revenue generated and is within the target.
2.	Capital Charges to Op. Exp:	16%	16.02%	-0.02%	Capital Charges are 16.02% of the total operating expenditure and is within the target.
3.	Annual Collection Rate (Debtors):	97%	73.25%	-23.75%	The annual collection rate is below the desired target of 97%.
4.	Net Debtors to Annual income:	18%	14.91%	3.09%	A net debtor to annual income is 14.91% and is within the target.
5.	Personnel Costs to Total Income:	30%	24%	5.54%	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.

## **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**

The under collection in some services as well as the low collection rate will have a direct effect on the cash flow of the Municipality and its ability to fully meet its financial obligations.

## **7. RECOMMENDATION**

It is recommended that:

- a) The Executive Mayor notes the report on the statement of financial performance and the implementation of the 2011/12 budget for the period ending 31 August 2011.
- b) The Executive Mayor considers the financial state of affairs of the Municipality as reflected in this report and takes note of the collection rate of 73.25%.
- c) The Executive Mayor notes the low spending rate of 3% on the operating projects as reflected in section 4.2 of this report.
- d) The Executive Mayor notes the low spending rate of 3% on capital budget as reflected in section 4.3 of this report.
- e) The Executive Mayor notes the low spending rate of 2% on the conditional grants as reflected in section 4.4 of this report.

**MR. A. FANI**  
**ACTING CITY MANAGER**

## **ENCLOSED:**

### **Annexure A**

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

Schedule of Borrowings