

REPORT TO THE EXECUTIVE MAYOR: 15 AUGUST 2011
OFFICE OF THE ACTING CITY MANAGER

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

File No.: 5/1/1/1[10/11]
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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 July 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 July 2011 (refer to annexure A - C4).

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

EC125 Buffalo City - Table C4 Monthly Budget Statement - Financial Performance (revenue and expenditure) - M01 July											
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	
R thousands											
Revenue By Source											
Property rates			520,511		12,360	12,360	29,277	(16,917)	-58%	520,511	
Property rates - penalties & collection charges			1,236		52	52	57	(5)	-9%	1,236	
Service charges - electricity revenue			1,142,652		90,985	90,985	83,862	7,123	8%	1,142,652	
Service charges - water revenue			233,283		17,995	17,995	17,473	522	3%	233,283	
Service charges - sanitation revenue			180,203		11,679	11,679	11,334	345	3%	180,203	
Service charges - refuse revenue			173,905		14,620	14,620	15,119	(499)	-3%	173,905	
Service charges - other			22,539		4,796	4,796	3,832	964	25%	22,539	
Rental of facilities and equipment			12,759		638	638	509	129	25%	12,759	
Interest earned - external investments			30,192		598	598	813	(215)	-26%	30,192	
Interest earned - outstanding debtors			22,036		1,969	1,969	1,818	151	8%	22,036	
Dividends received			60					-		60	
Fines			10,657		425	425	745	(320)	-43%	10,657	
Licences and permits			15,391		959	959	1,377	(418)	-30%	15,391	
Agency services											
Transfers recognised - operational			966,570		243,492	243,492	259,639	(16,148)	-6%	966,570	
Other revenue			321,296		5,635	5,635	26,775	(21,140)	-79%	321,296	
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)			-	3,653,289	-	406,202	406,202	452,631	(46,429)	-10%	3,653,289
Expenditure By Type											
Employee related costs			983,308		69,151	69,151	78,461	(9,309)	-12%	983,308	
Remuneration of councillors			28,871		2,322	2,322	1,991	332	17%	28,871	
Debt impairment			165,450		13,788	13,788	13,788	-		165,450	
Depreciation & asset impairment			473,248		39,437	39,437	39,437	-		473,248	
Finance charges			67,067		5,589	5,589	5,589	-		67,067	
Bulk purchases			940,528		111,073	111,073	99,979	11,094	11%	940,528	
Other materials											
Contracted services			8,317		1	1	245	(244)	-100%	8,317	
Transfers and grants			3,432				286	(286)	-100%	3,432	
Other expenditure			1,256,770		44,983	44,983	48,693	(3,710)	-8%	1,256,770	
Loss on disposal of PPE											
Total Expenditure			-	3,926,991	-	286,344	286,344	288,468	(2,124)	-1%	3,926,991
Off-Set Depreciation				(310,741)		(25,895)	(25,895)			(310,741)	
Surplus/(Deficit)			-	37,039	-	145,753	145,753	190,058	(44,305)	-23%	37,039
Transfers recognised - capital				654,418							
Contributions recognised - capital											
Contributed assets											
Surplus/(Deficit) after capital transfers & contributions			-	691,457	-	145,753	145,753	190,058		37,039	
Taxation											
Surplus/(Deficit) after taxation			-	691,457	-	145,753	145,753	190,058		37,039	
Attributable to minorities											
Surplus/(Deficit) attributable to municipality			-	691,457	-	145,753	145,753	190,058		37,039	
Share of surplus/ (deficit) of associate											
Surplus/ (Deficit) for the year			-	691,457	-	145,753	145,753	190,058		37,039	

The average debtor's collection rate for the one month ending 31 July 2011 is 82.89%. The collection rate is lower than the National Treasury set target of 97%.

Notes to the Statement of Financial Performance for the Period Ending 30 June 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 is 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 R5 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. The unfavourable variance is due to the fact that the income is not proportionally realised throughout the year. It is anticipated that the income will be fully realised throughout the year.

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. This reflects an under expenditure of R3.7 million. The expenditure rate is expected to improve as the year.

4.2 OPERATING PROJECTS EXPENDITURE

Other expenditure includes operating projects as reflected in the table above. Operating projects expenditure for the period ending 31 July 2011 is R5.04 million which is 1% of the adjusted 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: 3.42%). 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 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 July 2011 amounts to R9 731 which is 0% of the adjusted budget of R764.67 million for the 2011/12 financial year. The capital expenditure indicates the same expenditure pattern when compared to the previous financial year (2010/2011) which was 0%. 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 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. No expenditure has been incurred on conditional grants DoRA current allocation as at 31 July 2011. 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 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

Funding/Grant	Approved Budget R	YTD Expenditure R	Variance R	Expenditure vs. Budget %
Department of Water affairs	1,680,000	0	1,680,000	0%
Electricity Demand Side Management	4,000,000	0	4,000,000	0%
Integrated National Electrification Programme	21,000,000	0	21,000,000	0%
Finance Management Grant	1,450,000	0	1,450,000	0%
Urban Settlement Development Grant	423,446,097	0	423,446,097	0%
Public Transport Infrastructure Grant	180,000,000	0	180,000,000	0%
TOTAL	631,576,097	0	631,576,097	0%

4.5 RESTRUCTURING GRANT MILESTONES

Table 4: Financial Performance Indicators

Reporting Period:		Month ended 31 July 2011			
Indicator		Target	Actual	Variance	Comment
1.	Total Debt to Annual Income:	35%	25.8%	9.2%	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%	14.4%	1.6%	Capital Charges are 14.4% of the total operating expenditure and is within the target.
3.	Annual Collection Rate (Debtors):	97%	82.89%	-14.11%	The annual collection rate is below the desired target of 97%.
4.	Net Debtors to Annual income:	18%	13.6%	4.4%	A net debtor to annual income is 13.6% and is within the target.
5.	Personnel Costs to Total Income:	30%	17%	13%	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 July 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 82.89%.
- c) The Executive Mayor notes the low spending rate of 1% on the operating projects as reflected in section 4.2 of this report.
- d) The Executive Mayor notes the low spending rate of 0% on capital budget as reflected in section 4.3 of this report.
- e) The Executive Mayor notes the low spending rate of 0% 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

Annexure D

Quality Certificate