

BUDGET ADJUSTMENT REPORT

2014 / 2015



BUDGET ADJUSTMENT 2014 /2015

Copies of this document can be viewed:

In the foyers at 242 Langalibalele Street, PMB and

At www.umd.gov.za

Table of Contents

PART 1

- 1. Mayor's Report**
- 2. Resolutions**
- 3. Executive Summary**

PART 2

- 4. Budget Assumptions**
- 5. Operating Budget Framework**
 - 5.1 Adjustment to funding Revenue Framework**
 - 5.2 Adjustment to Operating Expenditure Framework**
 - 5.3 Adjustment to Councilor Allowances**
- 6. Capital Expenditure**
- 7. Cash and Cash Equivalents**
- 8. Provincial Treasury report**
- 9. Responses to the Provincial Treasury report**
- 10. Quality Certificate**

1. MAYOR'S REPORT

In order to fulfil the mandate, uMgungundlovu District Municipality needs to be able to continuously provide uninterrupted and deliver improved high quality of life and services to our citizens. uMDM needs to generate the required revenues in order to sustain the services and strive to overcome grant dependency. In these tough economic times, strong revenue management and cost controlling measures becomes fundamental to the financial sustainability of every municipality. The reality our municipality like majority of other municipalities nationwide is faced with challenges such as frail and ageing infrastructure; development backlogs; social ills poverty, etc. However we strive to deliver and reach all four corners of our District and service all our citizens.

We are experiencing a steady incline in revenue generation and collection; however we continue to rely on grants to fund both our operational and capital expenditure. Our income generated from trading services is still insufficient to facilitate profits and growth of the services. The amount required to address the apartheid injustices continues exceed available funding; hence difficult choices between the tariff increases, expenditure prioritization and balancing against realistically anticipated revenues.

We continue to strive by educating qualifying customers to register their indigent status. This will assist the municipality to budget better and make better income projections.

Although the municipality is grant reliant, a lot of work has been done to reduce unnecessary expenditure. This is evident from the fact that the municipality has a positive bank balance and the cash coverage ratio has been positive and improving during the last 3 years.

As a municipality we endeavour to contain and limit our expenditure and fund core service provision. The Technical Unit responsible for water and sanitation receives more than 50% of our operational budget. As a citizen centric Municipality we continue to promote social programmes that contribute towards nation building and social cohesion. uMDM has recently hosted another successful Mandela Day Marathon, with over 10 000 participants, and associated with AIMS (Association of International Marathon and Road Running) and Nelson Mandela Foundation.

Our capital projects implementation is one of the best performing areas of the municipality. We have managed as a municipality to utilise the full National Treasury allocation of the Municipal Infrastructure grant. The municipality has, whilst finalising the loan agreement with DBSA, been funding its capital projects from its own funding. The draw down schedule for the loan withdrawals is expected to resume in March.

2. RESOLUTIONS

It recommended that :

- 2.1 Council approves the Mid-Year Adjustment for the 2014 / 2015 financial year.
- 2.2 Notes and approves funding sources totalling R 829.321 million.
- 2.3 Notes and approves the total operating revenue of R 532.5 million

- 2.4 Notes and approves the total operating expenditure of R 566.8 million
 2.5 Notes and approves the operating deficit of R 34.2 million
 2.6 Notes and approves the total capital expenditure of R 209 million.

3. EXECUTIVE SUMMARY

The executive summary table reflects that the municipality has an operating revenue of R532,539 million down from R548,480 million which is a decline of 3% from the original budgeted operating revenue. The operating expenditure inclined slightly by 0.5% from R563,718 million to R566,781 million. The operating deficit amounted to R34,341 million although the municipality has recorded an actual operating surplus of R92,817 million for the period ended 31 December 2014. R26,930 million of the deficit results from the VIP sanitation expenses which are MIG funded and do not result in capital assets. This table, disregards revenues that are already received by the municipality, and further excludes accumulated surpluses that will be used to fund the budget. This summary only considers revenue to be raised during the year and grants as gazetted by DoRA and Provincial gazette.

Description	Budget Year 2014/15				Budget Year +1 2015/16	Budget Year +2 2016/17
	Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands	A	6 F	7 G	8 H		
Financial Performance						
Service charges	107,291	-	-	107,291	113,085	119,191
Investment revenue	15,310	(5,950)	(5,950)	9,360	16,137	17,008
Transfers recognised – operational	390,746	-	-	390,746	402,241	435,428
Other own revenue	35,132	(9,990)	(9,990)	25,142	10,508	11,076
Total Revenue (excluding capital transfers and contributions)	548,480	(15,940)	(15,940)	532,539	541,971	582,703
Employee costs	198,840	(3,291)	(3,291)	195,549	210,770	223,416
Remuneration of councillors	14,878	(3,194)	(3,194)	11,684	15,771	16,717
Depreciation & asset impairment	45,391	-	-	45,391	48,115	51,002
Finance charges	5,300	(4,100)	(4,100)	1,200	5,618	5,955
Materials and bulk purchases	73,125	3,971	3,971	77,096	77,513	82,164
Transfers and grants	48,992	(20,302)	(20,302)	28,690	51,931	55,047
Other expenditure	177,191	29,979	29,979	207,170	187,823	199,092
Total Expenditure	563,718	3,063	3,063	566,781	597,541	633,393
Surplus/(Deficit)	(15,238)	(19,003)	(19,003)	(34,241)	(55,570)	(50,690)
Transfers recognised – capital	139,097	(23,000)	(23,000)	122,201	193,784	176,029
Contributions recognised - capital & contributed assets	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	123,859	(42,003)	(42,003)	81,856	138,214	125,339
Share of surplus/ (deficit) of associate	-	-	-	-	-	-
Surplus/ (Deficit) for the year	123,859	(42,003)	(42,003)	81,856	138,214	125,339

The non-cash item expenditure amounted to R74,175 million from provision for debt impairment and depreciation of assets. The proportion of the non-cash items on the operating expenditure is 13% and has increased from 11% from original budget. The cash operating expenditure is thus R492,605 million against the operating revenue of R532,539 million. The following factors must be considered by the municipality to ensure sustainable budgeting:

- i. Revenue base must be increased to maximize revenue.
- ii. Revision of spending patterns and measures to manage cost drivers.
- iii. Improve on revenue collection in order to further cash back the reserves.
- iv. Reduce water losses to improve sales against the bulk purchase of water and reduce technical losses.

Difficult decisions are constantly made by the municipality in preparing an adjustment budget that is balanced and focused on the core business of the municipality which is the provision of sustainable water and sanitation services to the citizens of uMgungundlovu district municipality amongst other priorities. 75% of the municipality's operating costs are locked in fixed costs due to the unavoidable overhead costs of providing quality water to its citizens. An increase in tariffs is not always the solution to providing a balanced budget in the economic climate of rising costs of living. The funding of the budget after adjustment amounted to R829,321 million down by 8,6% from R907,590 million. The main contributor to the downward adjustment is due to the reconciliation of opening balances in unspent grants from prior years which was caused by timing difference between the approval of the budget and the start of the budget year and a reduction of the contribution from cash backed accumulated surpluses.

The reconciliation of the funding sources and the budget is as follows:

TABLE 1

Budget Reconciliation	
Total Income	829 321 458
Less Loan Funding	-155 000 000
Less Capital Grants	-134 282 000
Total Available for OPEX	540 039 458
<i>Less Accumulated Surpluses</i>	<i>7 500 000</i>
Available for Trading	532 539 458
Operational Expenditure	566 780 163
<i>Less: non cash operating expenditure</i>	<i>-74 175 000</i>
<i>Less Expensed Capital Funded Capital Projects</i>	<i>-26 930 054</i>
Total Expenditure	465 675 109
Operating surplus before non-cash items	66 864 349
Non cash operating expenditure	-74 175 000
Net operating deficit including non-cash operating expenditure	-7 310 651
Contributions from Reserves	7 500 000
Budget surplus	189 349

The municipality has managed to provide for a budget surplus of R 189 349 after reducing the contribution from the cash backed accumulated reserve from R20 million to R7,5million.

PART 2

4. BUDGET ASSUMPTIONS

After the completion of the budget implementation assessment, the Municipality established and concluded the following:

1. No additional funding will be allocated the municipality as per the Provincial Government Gazette No. 233
2. Corridor Development Funding of R 23 million originally allocated to the Municipality will be paid directly to the Local Municipalities not to the District Municipality, reducing anticipated revenues by R 23 million.
3. The roll over grants as reflected in the 2014 / 2015 budget are over stated in the income section due to the timing difference between the approval of the budget and the continued operations of the previous year.
4. The results of the Technical Assistance (completed in October 2014) in relation to the revision of useful lives of the infrastructure assets will lead to a reduction of depreciation due to increased useful lives of some infrastructure assets categories.
5. The finalization and full compliance with the provisions of the approved DBSA loan conditions will be completed in February 2015 and the loan drawdowns will resume in March 2015.
6. The municipality will collect on average 60% of its raised revenues by the end of June 2015.
7. The Determination of Upper limits to Councillors allowances and benefits Gazette is awaited for release after the mid year of the budget year.

5. OPERATING BUDGET FRAMEWORK

5.1 OPERATING REVENUE FRAMEWORK

Originally, the Municipality budgeted an amount of R 907.5 million to fund its budget for the 2014/ 2015 financial year. The funding sources included funds to be received in a form of grants as gazetted in the Division of Revenue Act, Provincial Gazette, grants that were already received by the municipality at the time of the approval of the budget and cash backed accumulated surpluses.

The adjustment budget reflects that the amount available for funding the budget is reduced to **R 829.321 million** as set out in the graph below. The funding sources reflect that only **20%** of revenue is derived from trading services and over **70%** from grants which reflects council's dependency on grants. Further the trading services represent only **14%** of the total funding of the budget which can be translated to mean that the municipality still relies heavily on grants to fund its core business, which is the provision of sanitation and water to its residents.

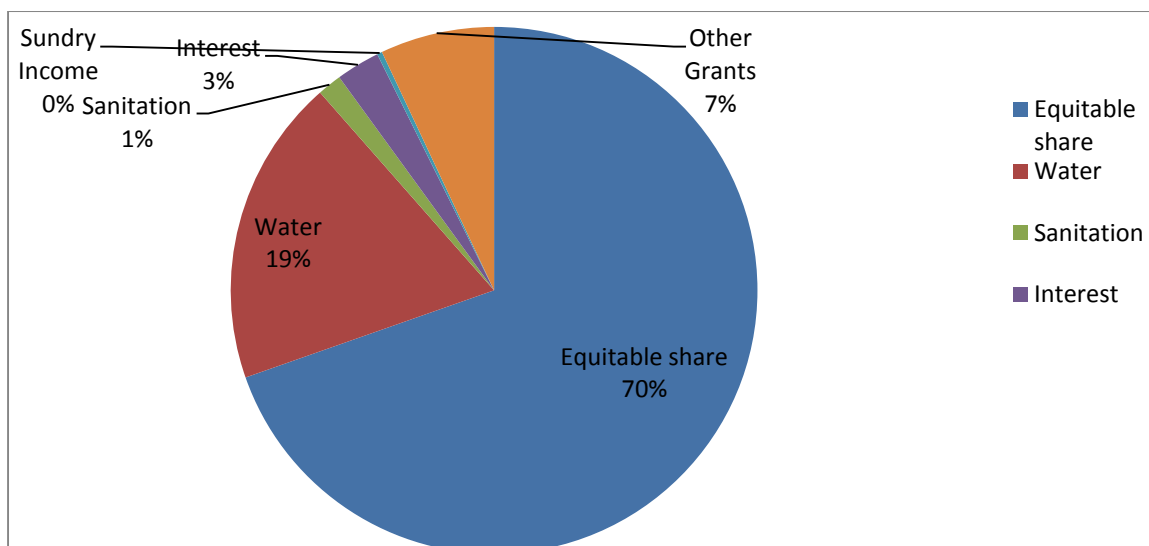


Illustration of operating revenue contribution

The following adjustments were provided for in income in line with the mid-year performance;

1. The interest on investment income has been reduced to R9,360million due to under performance ,of the income mainly due to the cross subsidisation of MIG expenditure from internal funds which saw the municipality draw back on investing activities in favour of service delivery projects.
2. The interest on consumer debtors has been reduced to R4,8 million.
3. Other reductions were in the unspent conditional grants opening balances which needed to be reconciled for timing differences between the approval of the budget and the start of the budget year which a detailed reasoning is tabled below in table

DC22 uMgungundlovu - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - Feb 2015

Description R thousands	Ref	Budget Year 2014/15				Budget Year +1 2015/16	Budget Year +2 2016/17
		Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		A	8 F	9 G	10 H		
Revenue By Source							
Service charges - water revenue	2	99,459	-	-	99,459	104,830	110,491
Service charges - sanitation revenue	2	7,832	-	-	7,832	8,255	8,700
Rental of facilities and equipment		320		-	320	337	355
Interest earned - external investments		15,310	(5,950)	(5,950)	9,360	16,137	17,008
Interest earned - outstanding debtors		8,000	(3,200)	(3,200)	4,800	8,432	8,887
Dividends received				-	-		
Fines				-	-		
Licences and permits				-	-		
Agency services				-	-		
Transfers recognised - operating		390,746		-	390,746	402,241	435,428
Other revenue	2	26,812	(6,790)	(6,790)	20,022	1,739	1,833
Gains on disposal of PPE				-	-		
Total Revenue (excluding capital transfers and contributions)		548,480	(15,940)	(15,940)	532,539	541,971	582,703

Below are the details reasons that influenced the adjustment of revenue sources

TABLE 2

Major changes to the sources of income (OPERATING AND CAPITAL INCOME)				
Income source	Original Budget	Revised Budget	Change	Reason for adjustment
	(R)	(R)		
Interest on investments	15,310,000.00	9,360,000.00	(5,950,000.00)	The interest from investments reduced as the extra collection is not achievable, no new expected investments to occur.
Interest on late payments	8,000,000.00	4,800,000.00	(3,200,000.00)	Late payment charge reduced to half as the collection is not expected to increase beyond 70 %.
Various Grants	70,183,149.00	12,592,864.00	(57,590,285.00)	Various grants spent between the approval of the budget and the start of the financial year needed to be adjusted to reflect the expenditure that occurred post budget approval.
Massification Grant	6,104,000.00	21,339,291.00	15,235,291.00	An amount of R 15.2 million not included as a roll over as the grant was expected to be fully utilised by 30 June 2014
EPWP	3,321,000.00	4,726,871.00	1,405,871.00	The rollover of R 1.4million was expected to be recalled by the National Treasury but was returned after motivation and submission of the revised implementation plan by the Municipality
MWIG	28,611,000.00	32,638,338.00	4,027,338.00	Roll over not included in the original budget as was expected to be fully spent by the end of June 2014
Corridor Development	23,000,000.00	550,000.00	(22,450,000.00)	The grant will be paid directly to the Local Municipalities according to the Provincial Gazette No 233 issued on 03 December 2014.
Corridor development-materials recovery facility grant	19,553,971.77	852,452.77	(18,701,519.00)	The grant has been recalled by COGTA
	173,083,120.77	86,859,816.77	(86,223,304.00)	

5.2 OPERATING EXPENDITURE FRAMEWORK

The core business for the municipality is to provide sustainable water and decent sanitation services. This is evident on the allocation of funds to the Technical Services Department. Table 3 below reflects an allocation of R318.1million to support the Technical Services department. For both the original and proposed adjustment budgets, the Technical Services Department was allocated more than 55% of the operational budget which demonstrates

the main focus of the municipality. The net adjustment in the operating revenue is R3million which major adjustment in the operating expenditure is against unspent grants due to timing differences between budget approval and start of budget year. The Municipality is investing a further R7million in efforts to increase its revenue base, improve the billing information integrity, reduce water losses and encourage its qualifying citizens to register for the indigent status.

The National Treasury encourages Municipalities to charge a cost reflective tariff to be able to recover its costs of providing the service, taking into account the cost of renewing assets, funding new assets to allow for the growth of the service and a tariff that promotes conservative consumption.

DC22 uMgungundlovu - Table B4 Adjustments Budget Financial Performance (revenue and expenditure) - Feb 2015

Description	Ref	Budget Year 2014/15				Budget Year +1 2015/16	Budget Year +2 2016/17
		Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands	1	A	8 F	9 G	10 H		
Expenditure By Type	-						
Employee related costs		198,840	(3,291)	(3,291)	195,549	210,770	223,416
Remuneration of councillors		14,878	(3,194)	(3,194)	11,684	15,771	16,717
Debt impairment		17,414	11,370	11,370	28,784	18,459	19,566
Depreciation & asset impairment		45,391	-	-	45,391	48,115	51,002
Finance charges		5,300	(4,100)	(4,100)	1,200	5,618	5,955
Bulk purchases		71,925	4,499	4,499	76,424	76,241	80,815
Other materials		1,200	(528)	(528)	672	1,272	1,348
Contracted services		51,865	9,998	9,998	61,863	54,977	58,275
Transfers and grants		48,992	(20,302)	(20,302)	28,690	51,931	55,047
Other expenditure		107,912	8,611	8,611	116,523	114,387	121,250
Loss on disposal of PPE				-	-		
Total Expenditure		563,718	3,063	3,063	566,781	597,541	633,393

TABLE 3

Department	Original Budget	% of Budget	Adjusted Budget	% of Budget
Community Services	79 874 893	14.17	77 651 535	13.70
Corporate Services	51 795 187	9.19	55 377 771	9.77
Executive and Council	50 913 300	9.03	57 280 377	10.11
Finance	53 264 940	9.45	58 341 010	10.29
Technical Services	327 869 336	58.16	318 129 470	56.13
	563 717 656	100.00	566 780 163	100.00

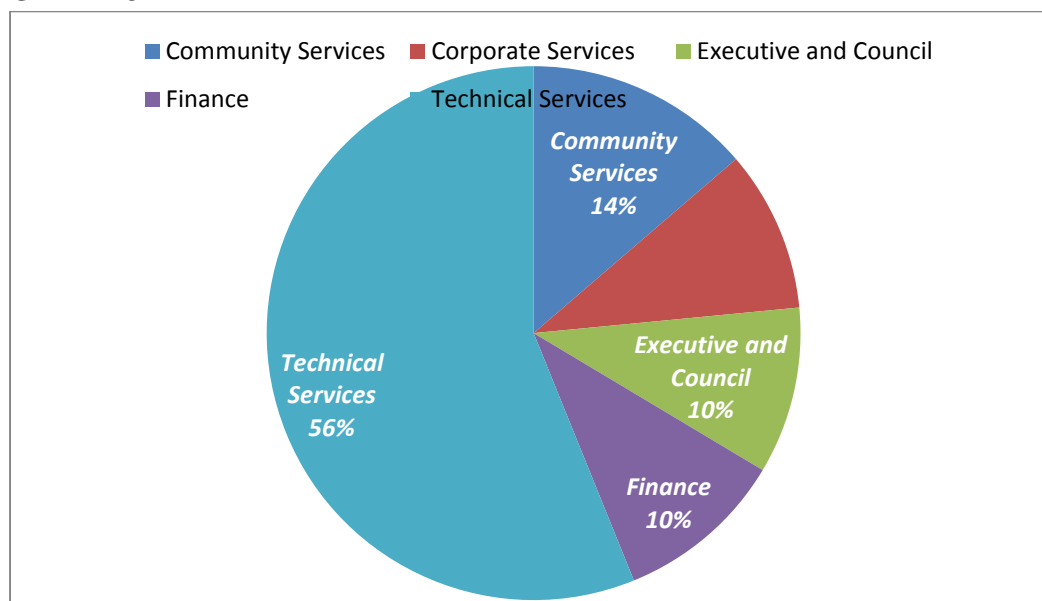
GRAPH 3

Table 4 below outlines the changes in the original budget per department. Overall, the municipality increased its operational expenditure projections to a net increase of **R3million** (0.5%), taking into account the expenditure incurred, expenditure to be incurred to the end of the financial year and the funds recoverability of billing.

TABLE 4

Operational Expenditure per Department				
	Original Budget	Revised Budget	% Change	Amount Change
Community Services	79 874 893	77 651 535	-2.78	-2 223 358
Corporate Services	51 795 187	55 377 771	6.92	3 582 584
Executive and Council	50 913 300	57 280 377	12.51	6 367 077
Finance	53 264 940	58 341 010	9.53	5 076 070
Technical Services	327 869 336	318 129 470	-2.97	-9 739 866
Total	563 717 656	566 780 163	0.54	3 062 507

Although the Technical Services is outlined as though it has lost R 9,7 million of its original budget, this is due to the reduction in the main of its non cash items such as the depreciation (Capital Charges).The department has received a net of R 14.8 million cash items in the adjustment budget. Table 5 outlines the movements in the allocation of the budget for the Technical Services.

TABLE 5				
Item	Original Budget	Adjusted Budget	Changes	Motivation
Project Expenditure	47,231,845.00	26,930,054.00	(20,301,791.00)	The roll over funding spent in the previous year

Water Tankers	32,665,000.00	45,309,204.00	12,644,204.00	Due to service increased service interruptions, the need to offer alternate provision was increased in the first semester of the year
Operations and Maintenance	18,093,216.00	16,143,216.00	(1,950,000.00)	Correction of expenditure classification
Electricity	1,650,000.00	650,000.00	(1,000,000.00)	Over budgeting
Interest Paid	5,300,000.00	-	(5,300,000.00)	Moved to Financial Services and reduced as the draw downs of the loan will resume in March
Motor Vehicle hire	-	3,500,000.00	3,500,000.00	Reallocated form Corporate services for ring fencing to the service
Technical Compliance	5,000,000.00	7,000,000.00	2,000,000.00	Increased efforts to compliance
Water loss Management	900,000.00	5,900,000.00	5,000,000.00	Increased efforts to address water losses
	156,231,325.00	150 828 738.00	(5,407,587.00)	

- The project expenditure item has been reduced as the grants have been spent in the previous financial year.
- Due to revised and longer useful lives as recommended by the reviewed fixed assets policy, the capital charges have been maintained as the estimate was originally based on an old policy.
- The water tankers items is increased based to accommodate additional expenditure incurred to provide water as an alternative measure during service interruptions.
- The operations and maintenance item has been reduced to allow for correct expenditure classification which falls into technical compliance and water loss management items.
- The interest has been reduced and moved to Financial Services department . The reduction is a result of the delay in loan withdrawals from DBSA. The municipality has been bridge funding capital expenditure that should have been funded by the loan.

Table 6 below is a summary of major items with movements per department.

TABLE 6

Major Changes in Community Services

Item	Original Budget	Adjusted Budget	Changes	Motivation
HIV Awareness Programmes	1 580 000	1 080 000	-500 000	Reduced Implementation on programs
Youth	2 000 000	1 500 000	-500 000	Reduced Implementation on programs
Salga Games	3 500 000	3 400 000	-100 000	Savings
Culture Promotion	500 000	400 000	-100 000	Reduced Implementation on programs
Compliance / Testing Environmental Health	1 450 000	750 000	-700 000	Reduced Implementation on

				programs
LED Promotion	3 596 309	2 296 309	-1 300 000	Changes in implementation of programs
Mandela Day Marathon	1 000 000	4 710 143	3 710 143	Increase in athletes
Tourism Promotion	2 300 000	1 670 000	-630 000	Changes in implementation of programs

Major Changes in Corporate Services

Item	Original Budget	Adjusted Budget	Changes	Motivation
Conferences	80 000	280 000	200 000	Increase in the need for conferences
Security	3 900 000	7 565 504	3 665 504	Increased completed projects, unrests in the Municipality
Consultants	0	2 000 000	2 000 000	Urgent review of policies
Insurance General	2 000 000	1 500 000	(500 000)	Reduction on excess payments due to improved controls on theft and damages to property and vehicles
Office Expenses	500 000	1 000 000	500 000	Increased use of office supplies
Postage	1 000 000	750 000	(250 000)	Reduced return to sender postage
Printing and Stationery	1 000 000	1 550 000	550 000	Controls needs to be improved
Telephones	2 700 000	4 000 000	1 300 000	Controls needs to be improved
Hire Costs	10 140 952	1 527 902	(8 613 050)	Travel allowance policy approved. Incorrect classification of expenditure which should be accounted for as Running Costs
Motor vehicle Running Costs	575 000	3 715 000	3 140 000	Correction of a classification of expenditure
Training	2 000 000	2 800 000	800 000	Additional Training identified in line with the skills development plan.

Major Changes in Executive & Council

Item	Original Budget	Adjusted Budget	Changes	Motivation
Legal Costs	984 600	1 134 600	150 000	Increased instances of legal matters to be resolved
Research	500 000	300 000	(200 000)	Co funding being finalised
Communication	2 000 000	2 450 000	450 000	Incorrect Allocation of Expenditure
Remuneration to Councillors	14 878 383	11 684 164	(3 194 219)	Traditional leaders allowances and data cards for councillors.

The operating expenditure is 63% committed in contracted services, salaries and councillors allowances, bulk water purchases and finance charges which cannot be reviewed downwards in the near future. The non-cash items represent 11% of the total expenditure leaving only 25% of expenditure which council can review and manage costs better whilst exercising cost control measures against possible services like telephones and vehicles running costs amongst other cost drivers. The depreciation must be adequately provided to allow future revitalization of assets and hence the allowance has not been adjusted although useful lives of assets have been increased. The adjustment in useful life saving will be used to cater for the depreciation of new assets that will be brought to completion within this financial year.

6. CAPITAL EXPENDITURE

TABLE 7

FUNCTION	Adjusted Budget	Original Budget	% of the Adjusted Budget
Water & Waste Works	204 859 482	241 808 390	86.77
Operational Assets	4 300 000	4 300 000	1.82
VIP Sanitation	15 882 280	15 882 280	6.73
Solid Waste	1 000 000	22 553 972	0.42
Cemeteries	1 700 000	3 400 000	0.72
Sports	3 633 776	633 776	1.54
Renewable Energy	1 150 000	1 150 000	0.49
Roads	3 563 998	3 611 817	1.51
TOTAL	236 089 535	293 340 235	

Capital Budget	236 089 535	293 340 235
Expensed	26 930 054	47 231 845
Capital	209 159 482	246 108 390

The Municipality has a MIG allocation of R97.2 million for the 2014 / 2015 financial year. Further to the allocation, the municipality has various capital grants to the value of R37 million.

To fund its capital projects, the Municipality has secure 2 loans with the DBSA to the value of R 230 million. The two types of loans are :

- i. R 230 million balance sheet loan payable over a period of years and
- ii. R 130 million MIG front loading which is payable with the MIG allocation for the year.

The main focus of the Municipality is to invest and improve on the water services provision. This function is allocated 86.7 % of the budget as can be seen in Table 7 above. The

reduction on the capital budget is as a result of R 23 million corridor development grant that the Provincial Treasury will no longer be paying to the District Municipality but directly to the Local municipalities.

Due to the delays with implementation, an allocation of R19.5 million for the solid waste programs had to be returned and paid back to the sponsoring Provincial department, this as well lead to the reduction of the capital budget.

7. Cash and cash equivalents

The cash in bank as at 31 December 2014 amounted to R223,486 million including investments. The average interest rate earned on investments was 6.4% for the first 6 months of the year. The cash coverage ratio as at 31 December 2014 stood at 4.2 months which indicates that council had sufficient cash to operate for a period of 4.2 months without receiving grants to cover operating costs. The norm as set out in the uniform financial ratios and norms circular 71 is 1 month to 3 months. Due to improved and accelerated capital projects implementation, the Municipal Infrastructure Grant is not sufficient for the year. As a result, the Municipality has invested an amount in excess of R 121 million to bridge finance projects implementation which stresses the need for front loading to meet the accelerated project implementation pace. The cash coverage ratio at the mid year was at 4.2 months which is still within the norms.

Schedule of Bank Balances October - December 2014

Account Name	Account Number	October	November	December
Main Account	50940026773	18,831,899.68	138,521,501.19	15,164,695.00
Salaries Account	50940092196	9,055.50	14,087,328.95	66.64
Water Services Account	62023616462	2,958,957.01	829,691.38	254,875.55
Mandela Race Account	62411577193	761,561.38	764,387.86	767,036.66
UMDM MIG (Dbsa) Account	62400041985	70,318.27	70,515.87	70,705.53
Public Sector Cheque Account	62243484417	0.00	0.00	0.00
Total		22,631,791.84	154,273,425.25	16,257,379.38

INVESTMENTS

Account Name	Account Number	October	November	December	interest rate
Standard bank	358610095-002	30,429,670.49	30,132,493.15	30,291,166.43	6.2%
FNB	71101199555	3,813,015.41	3,834,744.86	3,857,198.63	7.1%
Investec	50003728655	30,015,287.67	30,168,242.29	30,327,100.82	6.2%
Absa	2070530459	30,361,808.22	30,046,232.88	30,205,479.46	6.2%
State Bank of India		5,142,109.59	0.00	0.00	6.0%
Ithala Bank	63647675	-	0.00	5,026,465.75	6.9%
Nedbank	1296000028	30,442,561.64	30,142,684.93	30,300,657.53	6.2%
NSTD Call Account	62215748289	52,836,707.23	22,072,407.23	77,221,168.44	
Total		183,041,160.25	146,396,805.34	207,229,237.06	6.4%

Total Balances as at 31 December		205,672,952.09	300,670,230.59	223,486,616.44
---	--	-----------------------	-----------------------	-----------------------

RESPONSE TO PROVINCIAL TREASURY COMMENTS ON THE MID YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT 2014/2015

General

1. The figures in Schedule C submitted by the municipality do not completely reconcile with the Section 71 monthly figures. Material discrepancies were noted in Table C4 (*Service charges – water revenue, Interest earned – external investment, Other own revenue and Transfers recognised – capital*); Table C5; Table C6 and Table C7.

Management Response

The anomalies on the section 71 report have been corrected and resubmitted to National Treasury. in the following section 71 report. C7 schedule cash flow anomalies on interest has been corrected in the adjustment budget B schedule cash flow budget statement to reflect the correct figures. Transfers have also been corrected on schedule B of the adjustment budget.

2. Furthermore, the supporting tables do not completely reconcile to the main tables. Material discrepancies were noted in Table SC3 (*Debtors*), Table SC4 (*Creditors*) and Table SC5 (*Investments*). The municipality did not populate Table SC13a and Table SC13c. The municipality should ensure that all tables are accurately completed in future submissions.

Management Response

The schedule C supporting tables will be populated in future and the anomalies have been corrected with the Schedule B.

3. Operating Revenue

- The municipality has reported a year to date actual of R5.1 million for *Service charges – sanitation revenue*, which is R1.2 million or 30 percent above the year to date budget of R3.9 million.
- Furthermore, *Other revenue* year to date actual was R20.8 million, which was R7.4million or 55 percent above the year to date budget of R13.4 million.
- *Interest earned – external investments* under performed during the first six months as the municipality reported R6.6 million, which was R5 million or 43 percent below the year to date budget of R11.7 million.
- The municipality reported revenue of R89 000 for *Service charges – other* and R4.8 million for *Interest earned – outstanding debtors*, which was not budgeted for in the Original Budget.
- The municipality is advised to consider these variances during the Adjustments Budget process in order to reflect realistic revenues to be generated.

Management response

The material variances have been adjusted to realistic levels in the adjustments budget.

4. Operating Expenditure

- The municipality has under spent for most of the expenditure line items, as it spent R19.6 million or 20 percent below the year to date budget for *Employee related costs*, R2.5million or 34 percent below the year to date budget for *Remuneration of councillors*, R1.5million or 55 percent below the year to date budget for *Finance charges* and R9 million or 37 percent below the year to date budget for *Transfers and grants*.
- Furthermore, the municipality has over spent by R5 million or 19 percent against the R25.9 million year to date budget for *Contracted services* and by R6.5 million or 12 percent against the R54 million year to date budget for *Other expenditure*.
- The municipality should investigate the reasons for these differences and should consider these variances during the Adjustments Budget process in order to reflect realistic expenditure to be incurred.

Management responses

The material variances have been accordingly adjusted to realistic levels in the adjustment budget.

Cash flow

- The municipality has reported receipts of R64.2 million for *Ratepayers and other*, which was R34.5 million or 116 percent greater than the year to date budget of R29.7 million.
- The amount of R267.3 million for *Government – operating* reported in Table C7, does not reconcile to R290.4 million for total *Operating transfers and grants* reported in Table SC6. The *Government – capital* of R152.9 million also does not reconcile to total *Capital transfers and grants* of R108.9 million as per Table SC6.
- As per Table C7, the municipality has reported the *Transfers and grants* payments of R15.5 million, which was not budgeted for in the Original Budget.
- The municipality reported an amount of R4.8 million for *Increase (decrease) in consumer deposits*, which was R4.6 million more than the year to date budget of R137 000. The municipality also reported R72.4 million for *Repayment of borrowing*, which was R67.3 million more than the year to date budget of R5.1 million.
- The *Cash and cash equivalents* closing balance of R265.8 million as per Table C7, does not agree with R218.5 million for *Cash and cash equivalents* reported in Table C6, creating a difference of R47.3 million.
- The municipality should correct these errors and consider these variances during the Adjustments Budget process to ensure that realistic cash flows are reflected by the municipality.
- The *Unspent conditional grants* were sufficiently cash backed as at 31 December 2014.
- The municipality had a cash coverage ratio of 4.4 months as at 30 June 2014, and a cash coverage ratio of 4.2 months as at 31 December 2014, which are above the norm of 3 months. The municipality appears to be financially sound as at 31 December 2014 and should be able to meet its financial obligations.

Management response

The material variances have been adjusted to realistic levels in the adjustment budget and the anomalies within the schedules have been corrected in the B schedules.

Debtors

As per Table SC3, it was noted that R378.2 million or 91 percent of *Debtors* were over 90 days old as at 31 December 2014. *Debtors* have increased by R70.2 million or 20.4 percent from 01 July 2014 to 31 December 2014. This raises concerns as to the municipality's ability to collect billed revenue. The municipality should provide explanations and remedial measures to improve its debt collection as well as an explanation as to why 90 percent of debtors are over 90 days old.

Management response

The municipality has committed to increasing its efforts to debt collection in order to increase the collection rate from the average 58% at end of the period. R7 million has been committed in the adjustment budget to increase support in the disconnection of defaulting meters. Part of the municipality's strategy to deal with the escalating debt, is to update its indigent register to ensure the identification on non-affording households for free basic service provision. Management is also in the process of preparing a submission for the proposal of a debt write off for irrecoverable debt.

Creditors

- As per Table SC4, R294 000 or 79 percent of total *Creditors* were outstanding for more than 30 days as at 31 December 2014. This is in contravention of section 65(e) of the MFMA, which requires the municipality to settle all money owing within 30 days of receiving the invoice. The municipality is advised to pay its creditors on time to avoid fruitless and wasteful expenditure through interests and penalties on outstanding debts.

Management response

The comments are noted and management will endeavor to ensure that creditors are paid within the regulated timeframe.

Capital Expenditure

- As per Table C5, the municipality reported R152.9 million for total *Capital expenditure by standard classification*, which does not agree to the total of *Multi-year and single year appropriations* amount of R172.4 million. Furthermore, both these amounts do not match the amount of R172.1 million for total *Capital funding*.
- The municipality's total *Capital expenditure on New assets* in Table SC13a plus total *Capital expenditure on renewal of existing assets* in Table SC13b do not reconcile to total *Capital expenditure* in Table C5. Total *Capital expenditure on New assets* plus total *Capital expenditure on Renewal of existing assets* was R167.9 million whereas the total *Capital expenditure* in Table C5 was R152.9 million for standard classification and R172.4 million for multi-year and single year appropriations, creating a variance of R15 million and R4.5 million respectively.
- The municipality spent R332 000 for *Trading services – Other*, which was R1.8 million or 85 percent below the year to date budget of R2.2 million.

- The municipality spent R4.4 million against the *Provincial Government capital revenue*, which was R10.2 million or 70 percent below the year to date budget of R14.6 million. Furthermore, no expenditure was reported against R28.9 million year to date budget for *Borrowings*.
- The municipality should correct these errors and consider these variances during the Adjustments Budget process to reflect realistic capital expenditure to be incurred by the municipality.

Management response

The anomalies have been corrected on schedule B of the adjustment budget.

Conditional Grants

- The municipality did not incur any expenditure against the following grants according the grant schedule in the Mid-Year Budget and Assessment Report:
 - *Corridor development grant* with unspent balance of R550 000;
 - *Materials recovery facility – Corridor grant* with unspent balance of R19.6 million;
 - *Water purification grant* with unspent balance of R2.2 million;
 - *Camperdown waste water works* with unspent balance of R4 million;
 - *New WWW and Bulk sewer line – Corridor development* with unspent balance of R4 million;
 - *Municipal excellence awards grant* with unspent balance of R262 678;
 - *Energy sector* with unspent balance of R150 439;
 - *Water demand management grant* with unspent balance of R969 333;
 - *Accredited councillor training programme* with unspent balance of R23 020;
 - *PTP grant* with unspent grant of R308 816;
 - *KZN sport* with unspent grant of R633 775.
- Furthermore, the municipality has reported low expenditure against the following grants:
 - R924 087 or 28 percent against *Rural Roads Asset Management System grant*;
 - R166 703 or 13 percent against *DPSS GIS grant*;
 - R2.1 million or 8 percent against *Municipal water infrastructure grant*.

Management response

The strict monitoring of performance against the slow moving grants will be monitored on a monthly basis.

Municipal manager's quality certificate

I, TLS Khuzwayo, municipal manager of uMgungundlovu District Municipality, hereby certify that the Budget Adjustment and documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name _____
Signature _____
Date _____