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**PURPOSE**

The mid-year budget and performance assessment report is used as a management tool to assess the Municipality’s performance and financial position against the approved budget by analysing trends and patterns for the first six months of the 2018/19 financial year, with a view of giving effect to the Mayor and Councils oversight role and to recommend the need for an adjustment budget as envisaged by the Municipal Finance Management Act 56 of 2003

**INTRODUCTION**

In terms of Section 72(1)(a) and 52(d) of the Local Government Municipal Finance Management Act No. 56 of 2003 (MFMA) the Accounting Officer must by 25 January of each year assess the performance of the municipality during the first half of the financial year. A report on such assessment must in terms of Section 72(1) (b) of the MFMA be submitted to the Mayor, Provincial Treasury and National Treasury.

Once the Mayor has considered the report, he must submit the report to Council by 31 January in terms of Section 54 of the MFMA.

The mid-year performance reports and supporting tables of Xhariep District Municipality, prepared in accordance with MFMA Circular 13 and the Municipal Budget and Reporting Regulations, to illustrate the performance in graphical and tabular format are attached as Annexures A to Annexure G.

During the first six months we worked with a total staff compliment of 75 in which 42 are females and 33 males**.** We have maintained women representation on senior management level at 25%. We have, furthermore, successfully capacitated the organisation with suitable qualified employees in most of our critical positions.

**EXECUTIVE SUMMARY**

This report is a summary of the main budget issues arising from the budget monitoring process. It compares the progress of the budget in terms of actual income and expenditure to the projections contained in the Services Delivery and Budget Implementation Plan (SDBIP).

**2018/19 FINANCIAL OVERVIEW**

a) The 2018/19 annual budget, Integrated Development Plan and service delivery and budget implementation plan was adopted on the 30 May 2018.

b) The municipality submitted its annual financial statements (AFS) on the 31 August 2018 to the Auditor General.

c) Xhariep District municipality subsequently retained an **unqualified audit opinion** with other matters.

d) The budget has been monitored though section 71 reports monthly.

e) The first and second quarter performance assessments for Sec 57 and Sec 56 of the Municipal Systems Act is still yet to be confirmed.

f) There has been under expenditure on capital projects. However, the municipality procure tools of trade for councillors (Laptops) and other laptops for other department, this will reflect from month seven (7) reports and the expectation is to fully spend the capital budget allocation.

g) Operating expenditure was sitting below 40% as at 31 December 2018 while the operating revenue is at 50.6%.

h) Cash and Cash equivalents amounted to R 68 thousand with R6 million invested to generated interest.

|  |  |  |
| --- | --- | --- |
|  |  |  |
|  |  |  |

**PART 1: IN YEAR MONITORING**

**MAYOR’S REPORT**

**RESOLUTION**

**MID TERM BUDGET REVIEW RESOLUTIONS**

Section 72(1) of the Municipal Finance management Act no 56 of 2003 (MFMA) requires that the Accounting Officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year. The Municipal Budget and Reporting Regulations states that a mid – year budget and performance assessment must be in a format specified in Schedule C and include all required schedules.

The following resolutions were tabled by the Accounting Officer before the Mayor and Council for adoption and approval by 31 January 2018.

* That the Mid – year budget and performance assessment for the period 1 July 2018 to December 2018 be approved as set out in the tables C1 – C10
* That the municipality adjusts its approved annual budget for 2018/19 financial year on or before 28 February 2019

**3. EXECUTIVE SUMMARY**

As contained in the Local Government: Municipal Finance Management Act No.56 of 2003, Chapter 8 on roles of municipal officials, section 72, the Accounting Officer must assess the half yearly performance of the municipality and this is required to be done by 25th January every year to be submitted to the Mayor, National and Provincial Treasuries.

The following were considered to determine the actual performance of **Xhariep District Municipality** for the period of July 2018 to December 2018,

* Approved Budget for 2016/2017,
* Service Delivery Budget and Implementation Plan
* Council approved Procurement Plan
* Budget versus actual on approved 2018/19 budget
* Investments and Cash and Cash equivalents
* Analysis of anticipated budgeted revenue versus actual revenue for the six months ending December 2018
* Analysis of budgeted expenditure versus actual expenditure for the six months ending December 2018
* Mid – term performance report, considering targets versus actuals for both the first and the second quarter
* Auditor General’s audit report for the previous year and the action plan for all matters of emphasis
* Risk Register

During this process it became apparent that the municipality must adjust its current budget (2018/2019) accordingly. The Accounting Officer will therefore ensure that the adjusted budget document is approved by Council by the 28 February 2018 as prescribed by the MFMA regulations.

**1.1.1 Table C1 Budget Statement Summary**

The following table provides a summary of the Municipality’s financial performance, Capital expenditure, Financial Position, Cash flow, Debtors Age Analysis and Creditors analysis as at 31 December 2018:



**CHAPTER 2: BUDGET PERFORMANCE ALAYSIS**

**REPORT FOR THE QUARTER ENDED 31 December 2018**

This report is based upon financial information, as at 31 December 2018 and available at the time of preparation. All variances are calculated against the approved **Original** budget figures. The results **for the quarter ended 31 December 2018** are summarized as follows:

**2.1 Revenue Vs Expenditure Comparison Statement of Financial Performance (SFP)** (**Annexure A** **–Table C1**)

The SFP shown in Annexure A is prepared on a similar basis to the prescribed budget format, detailing revenue by source, excluding capital transfers and contributions, and expenditure by type.

The summary report indicates the following:

The actual performance for the three months period ending December 2018 (excluding capital transfers and contributions) on the operating budget can be summarised as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2018/19 Financial Year** | **Total Budget**  **R’000** | **1st Quarter Actual**  **R’000** | **2nd Quarter Actual**  **R’000** | **2nd Quarter Budget R’000** | **Variance**  **R’000** |
| Revenue by source | 65 268 | 18 744 | 14 321 | 32 774 | 290 |
| Expenditure by type | 65 268 | 12 880 | 12 459 | 32 634 | (7 295) |
| **Surplus/(Deficit)** | **-** | **5 864** | **1 862** |  | **7 585** |

**Note**:

* The total Actual Revenue includes total operational grants received from National Treasury as per the payment schedule for the quarter.

**2.1.1 Operating Revenue**

The following is the revenue performance of the municipality for the 2nd quarter of the financial year.

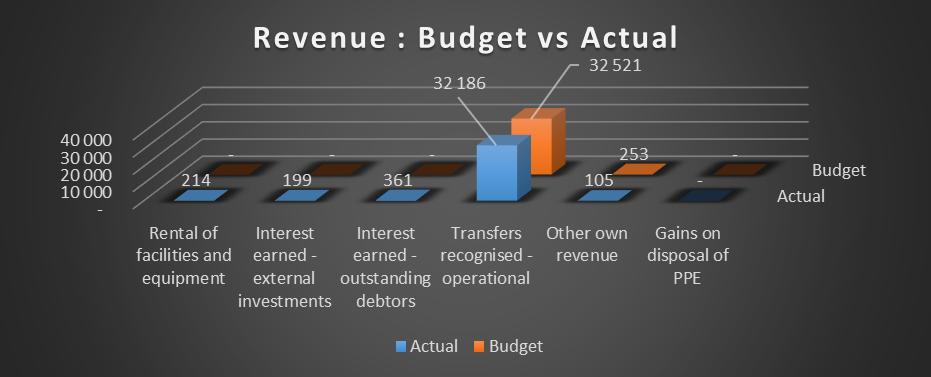
|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Budget 2018/19 R’000** | **Actual**  **October 2018** | **Actual November 2018** | **Actual**  **December 2018** | **Actual Total Quarter 2 2016** | **Budgeted Total Quarter 2 2016** | **Variance R’000** | **Variance %** |
| 65 268 | 610 | 663 | 13 048 | 14 321 | 16 387 | 2 066 | 12.6% |

The detailed cumulative year to date performance for the 2nd quarter is outlined below:

**The revenue variances against the original budget are:**

* **Total revenue:** During the 1st quarter R 16, 387m was billed and R 18, 744m 114.4 % was collected by the Municipality, and during the 2nd quarter R16, 387m was billed and R 14, 321m or 87.4% was collected. On average the collection is at 50.7% collection, the major attribute is the transfer and subsidies (Grants) at R32, 186m or 97% and the remaining 3% is shared amongst other revenue.
* **Transfer and subsidies:** The municipality received R16, 893m in the first quarter and R12, 818m during the second quarter however **R696 thousand** was repaid to National Revenue Fund due to unspent conditional grants.
* **Other income:** The municipality received R507 thousand in other income during the 1st quarter and subsequently received R371 during 2nd quarter. The other revenue is fairly stable and targeted to reach the expected budget by the end of the financial year. Interest from investment, rental of facilities were not allocated budget and will be adjusted to reflect a realistic budgeted amount in the adjustments budget.

Graphical illustration of the total budgeted income figures versus the actual figures for the quarter.

****

NB: The above illustration indicates that receipts on Rent of facilities, interest on external investments & outstanding debtors have no budget allocations and needs to be rectified with the anticipated adjustment budget.

A detailed report on every category are listed on Annexure B Attached

**2.1.1.2. Revenue management (Annexure A)**

* **Level of Reliance on Government Grants**

**Purpose**: The purpose of this ratio is to determine what percentage of the municipality’s revenue is made up of government grants to determine the level of reliance on government funding by the municipality for its operations.

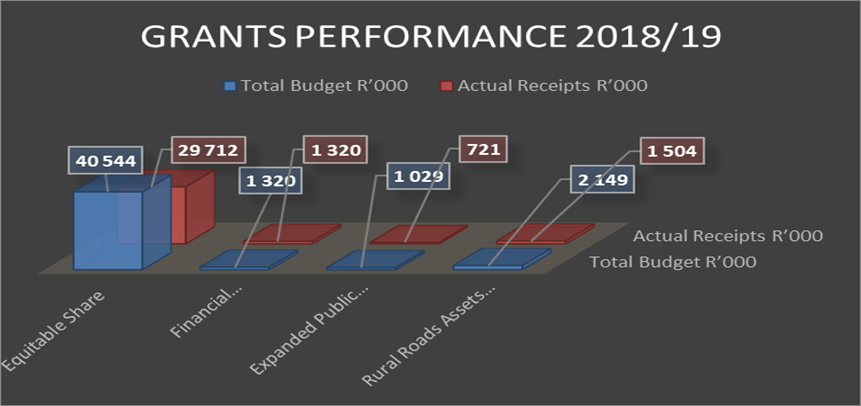
**Formula**: Grants & Subsidies/Total Revenue

These figures are found in the financial system of the Municipality

|  |  |  |
| --- | --- | --- |
| **Description** | **Total Budget** | **Actual Receipts** |
| **Operational Grants** | **R’000** | **R’000** |
| Equitable Share | 40 544 | 29 712 |
| Financial Management Grant | 1 320 | 1 320 |
| Expanded Public Works Program | 1 029 | 721 |
| Rural Roads Assets Management System | 2 149 | 1 504 |
| **Total Operational Grants** | **45 042** | **45 830** |
| Provincial Assistance | 20 000 | - |
| **Total Operational Income** | **65 042** | **33 257** |
| **Total Revenue** | **65 268** | **32 521** |
| **Percentage over Total Income anticipated** | **99.7%** | **102.3%** |

* The Municipality received 73.8% of its total budgeted Operational Grants for the sixth month of the financial Year (excluding Provincial assistance from CoGTA)
* A total of R29 712m was received as part of the Municipality’s equitable share on the first month of the financial year this excludes R696 thousand paid to NRF.
* A total of R 1, 320m was received as part of the Municipality’s Financial Management Grant in full as per DoRa and R721,000 as part of the Municipality’s Expanded Public Works Program for the 2nd quarter of the financial year in trenches (R258 000 in Month 02 & R463 000 in month 05).

Graphic illustration of Operational Grants received 2018/19 compared to 2018/19

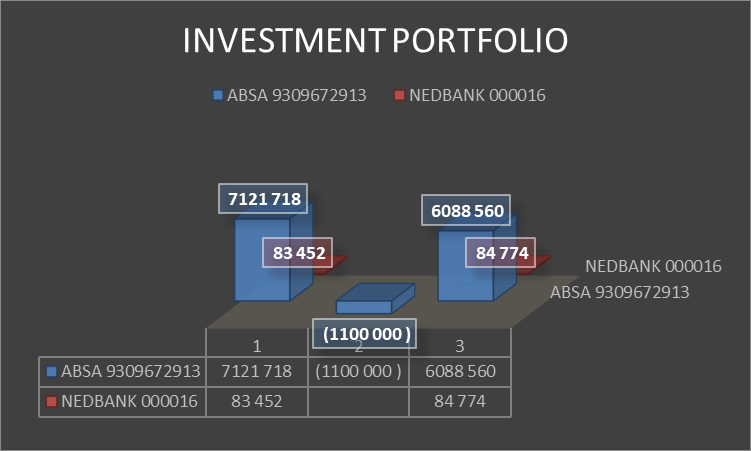


**2.1.1.3 Investments and Cash Management (Annexure G)**

Investments made with the various financial institutions are strictly in accordance with Municipal Finance Management Act and in terms of the Investment Framework Policy and Guidelines.

The Municipality invested with ABSA an amount of R10m in the 1st quarter and was totally redeemed and R6m in the 2nd quarter not yet redeemed. .

Graphic illustration of Investments made from July 2018 - December 2018 (closing balances only)



**2.1.2 OPERATIONAL EXPENDITURE (Annexure B)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Expenditure items and reason for such increase** | **Total Budget as at 31 December 2018** | **Actual Expenditure as at 31 December 2018** | **Amount Variance** | **Variance** |
| **(R)’000** | **(R)’000** | **(R)’000** | **(%)** |
| Employee related costs | 42 370 | 19 643 | (1 542) | (7.2) |
| Other Expenditure | 10 932 | 3 434 | (2 032) | (37.1%) |

**Employee related costs:** During the 1st quarter a total of R 9, 865m was spend and R 9, 778m during the 2nd quarter by the Municipality, the average spending is at 46.3% of the total allocation. This is due to vacant senior post and resignation of a manager in the BTO office. **The councilor’s remuneration** is at 52.3%, slightly above the ideal percentage and the allocation will be adjusted due to the implementation of councilor’s upper limits as per gazette.

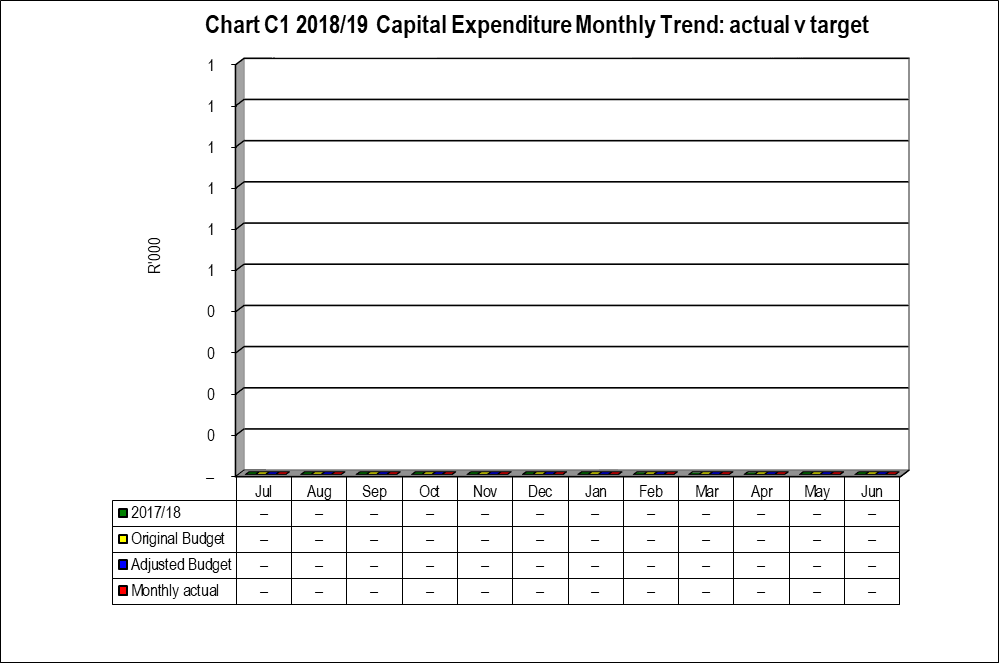
**Other Expenditure:** Other Expenditure include Repairs and Maintenance, Water Sampling, Hiring of Equipment, Telephone etc, is also under spent however the municipality needs to increase the repairs and maintenance allocation to cater for repairs on building in the adjustment budget.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Budget 2018/19 R’000** | **Actual**  **October 2018** | **Actual November 2018** | **Actual**  **December 2018** | **Actual Total Quarter 2 2016** | **Budgeted Total Quarter 2 2016** | **Variance R’000** | **Variance %** |
| 65 268 | 4 051 | 4 534 | 3 874 | 25 339 | 32 634 | 7 295 | (22.3%) |

The total expenditure budget needs to be accelerated in the next six months of the financial year 2018/19.

**Capital Expenditure**

The total capital expenditure shows no movement to the total capital allocation R281 thousand. However, there are laptops procured which will reflect in the following month section 71 report.



**CASH MANAGEMENT ANALYSIS**

**4.1 Cash Flow Management**

The cash flow indicates a closing balance (positive) of R68 million as at end December 2018 and decreased with positive R669 thousand previous month however the budget on cash flow is projected to be a R Nil.

The municipality’s net decrease in cash held is R2, 8 million this shows that the municipality is unable to pay its financial obligations due. The cash flow from operating activities shows a positive R3, 1 million, no capital payments from investing activities but investment of R6m and the cash flow from financing activities of R0, hence the closing balance of R68 thousand.

**PART 2: SUPPORTING DOCUMENTATION**

**Debtors Age Analysis**

**4.2 Outstanding Debtors (Annexure D)**

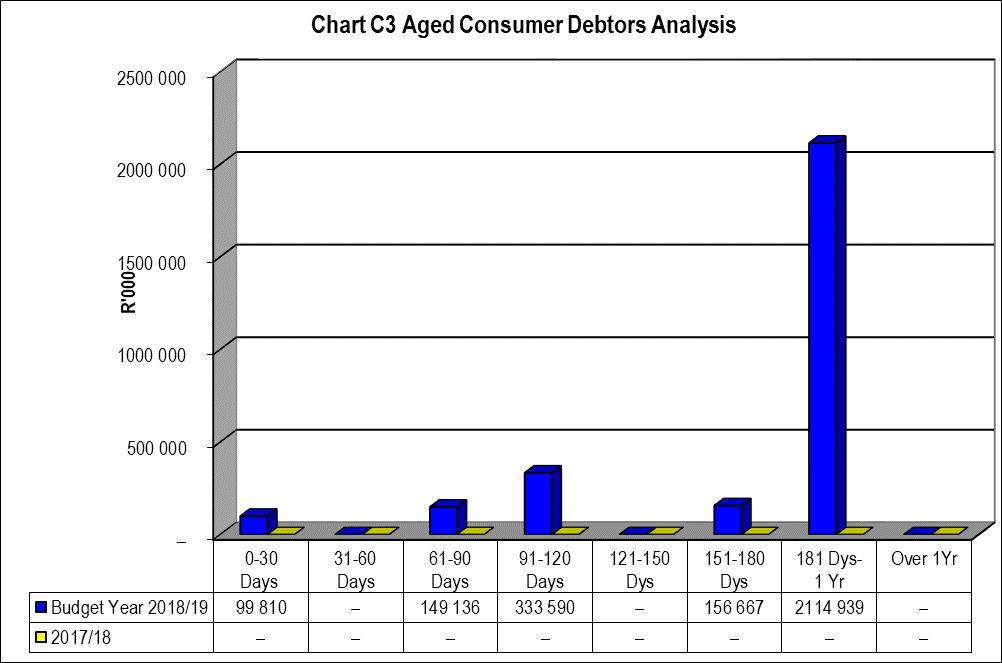
Analysis of outstanding debtors as at 31 December 2018



The total debtors of the municipality is at R4.7m and decreased with 11% or R605 thousand from R5.3 million on year to year basis in the same period. The main contributor to the total debtor’s book is Kopanong Local Municipality on rental of facilities and the rest is shared amongst other debtors.

Debtors per customer group are mainly dominated by Kopanong local municipality.

Graphic illustration of Debtor Age Analysis from July 2018 – December 2018

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**4.3 Outstanding Creditors (Annexure C)**

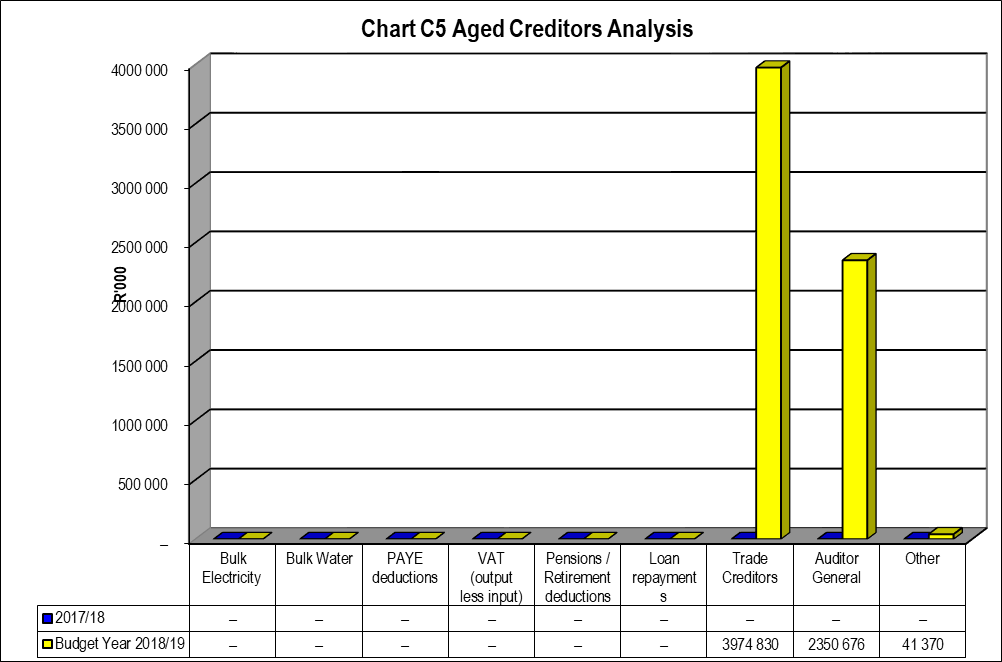
|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Detail** | **Bulk**  **Elect** | **Bulk**  **Water** | **Auditor**  **General** | **Pension**  **Ret.Ded** | **Loan**  **Repayment** | **Trade**  **Creditors** | **Other** | **Total** |
| **Dec 2018** | **-** | **-** | **2 351** | **-** | **-** | **3 974** |  | **109 800 658** |

Graphic illustration of Creditors Age Analysis from July 2018 – December 2018



The total creditors of the municipality are at R6.4 million, and increased with 15% on year to year comparison during the same period. The main contributors are trade creditors with 62% or R3, 9 million and Auditor General (SA) with 37% and other creditors share the rest.

Due to financial challenges the municipality was unable to pay all monies owing by them within 30 days of receiving the relevant invoice or statement.



**ADJUSTMENTS BUDGET**

Regulation 23 of the Municipal Budget and Reporting Regulations provides, inter alia for the following:

“An adjustment budget may be tabled in the Municipal Council at any time after the Mid-year Budget and Performance Assessment has been tabled in the Council, but not later than 28 February of each year. Furthermore, except under certain circumstances only one adjustment budget may be tabled in Council during a financial year.”

Accordingly a report on adjustments to the budget will be submitted for consideration by council before 28 February 2016.

**NATIONAL ADJUSTMENT BUDGET**

Due to the 2018/19 adjusted estimates of national expenditure and its proposed adjustments to the allocations made to provinces, the municipality anticipates a similar effect on its budget.

**Glossary**

|  |
| --- |
| **Adjustment Budget-** Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its Annual Budget during the year. |
| **Allocations –** Money received from Provincial or National Government or other municipalities |
| **Budget -**  The financial plan of the municipality |
| **Budget Related Policy –** Policy of a municipality affecting or affected by the budget. |
| **Capital Expenditure –** Spending on assets. Any capital expenditure must be as an asset or work in progress on the Municipality’s balance sheet |
| **Cash Flow Statement-** A statement showing when actual cash is received and spent by the municipality. Cash payments do not always coincide with budgeted expenditure timings, For example, when an invoice is received by the Municipality it scores as expenditure in the month it is received, even though it may not be paid in the same period. |
| **DORA –** Division of Revenue Act. Annual piece of legislation that shows the amount of allocations from National government. |
| **Equitable Share –** A general grant paid to municipalities by National Treasury. |
| **MTREF –** Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years’ financial position. |
| **Operating Expenditure –** Spending on the day to day expenses of the Municipality such as salaries, repairs, etc. |
| **SDBIP –** Service Delivery and Budget Implementation Plan. A detailed Plan comprising quarterly performance targets and Monthly budget estimates |
| **Vote -**  One of the main segments into which a budget is divided, usually at directorate/ department level |

**CHAPTER 7: MUNICIPAL MANAGER’S QUALITY CERTIFICATION**

***Xhariep District Municipality***

**CERTIFICATION**

**QUALITY CERTIFICATE – JANUARY 2018**

I, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the municipal manager of Xhariep District Municipality, hereby confirm that –

* Mid-year budget and performance assessment for the semester ended December 2018 has been prepared in accordance with the Municipal Finance Management Act and regulations made under the Act

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Ms. LY Moletsane

Xhariep District Municipality: DC16

Date:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_