

MID –YEAR BUDGET AND PERFORMANCE ASSESSMENT REVIEW

31 DECEMBER 2009

1. INTRODUCTION

The main objectives of the Mid-year Budget and Performance Assessments Review is to:

- Give effect to Section 72 of the MFMA that require the Accounting Officer of a municipality to assess the performance of the municipality during the first half of the financial year.
- Submit a report on such assessment to the –
 - a) Mayor of the municipality
 - b) National Treasury
 - c) Relevant Provincial Treasury.
- Make recommendations as to whether an Adjustment Budget is necessary and recommend revised projections for Revenue and Expenditure to the extent that this may be necessary.

2. ASSESSMENT FRAMEWORK

In an endeavour to provide useful analysis and interpretation of the financial Health, the Service Provider made use of certain comparative Industry norms throughout this document to formulate its observations and Comments. It is acknowledged that these norms may differ across municipalities given the dynamics and environment within which each operates. This is further influenced by how Tokologo Local Municipality report and prepare its budgets. These is done to enhance the quality and appropriateness of this assessment report.

3. FINANCIAL HEALTH ASSESSMENT

3.1 Assessments on the 2009/10 Annual Financial Statements

The purpose of this section is to analyse and interpret financial information of the municipality in order to assess the financial position, performance and cash flow position of the municipality. The ratios utilised will be classified to determine the municipality's performance in four areas namely **Revenue Management, Expenditure Management, Asset Management and Liability Management (REAL)**. Tokologo Local Municipality is classified as low capacity municipality. The municipality prepared its financial statements on IMFO principles.

3.1.1 REVENUE MANAGEMENT

- **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 level of reliance on government funding by the municipality.

Formula: Grants & Subsidies/Total Revenue

These figures are found on the face of the Statement of Financial Performance & Appendix

YEAR 2009/2010		
GOVT GRANTS & SUBSIDIES	OWN REVENUE	TOTAL REVENUE
12 796 412	4 957 199	17 753 611
72%	28%	100%

Analysis and Interpretation

- The general norm for grants and subsidies is that it must not be more than 45% of Total Revenue.
- The percentage of more than 45% implies that the municipality is Dependent on Grants and Subsidies.

• Actual Revenue vs. Budgeted Revenue

Purpose: The purpose of this ratio seeks to determine deviations between actual and budgeted revenue and to ascertain reasons for the deviations.

Formula: Actual Revenue/Budgeted Revenue
These figures are found in 2009/10 Municipal Financial Statements

Actual Revenue 2009/2010	Budgeted Revenue 2009/2010	Variance R	Variance %
22 229 829	42 531 662	20 301 833	47%

Analysis and Interpretation

- The acceptable standard is that the actual revenue for a financial year must equal or exceed the approved budget for the financial year.
- The percentage of 47 put the municipality is within the norm when comparing total actual revenue and total budgeted revenue.

3.1.2 EXPENDITURE MANAGEMENT

• Personnel Cost to Total Expenditure

Purpose: The purpose of this ratio is to indicate Personnel Cost as a percentage of Total Expenditure.

Formula: Salaries, Wages and Allowances/Total Expenditure
These figures are found in the Financial Information from financial services.

Analysis and Interpretation

- The norm for this ratio is 35% of total expenditure.
- While the personnel costs have increased by as compared to the 2008/2009 financial year, the ratio increased due to the Total Operating Expenditure which increased.

- The Personnel Budget increased drastically from 2008/09 with 7,5% to 13% in 2009/10,
- Personnel Cost has increased and we need to take stock and determine whether or what the level of increased/improved services (output and outcomes). There is a serious need to consider the level of efficiency, effectiveness and productivity

YEAR 2009/10		
PERSONNEL COSTS	TOTAL OPERATING EXPENDITURE	%
9 845 472	22 349 082	44%

Analysis and Interpretation

- The norm for this ratio is 35% of total expenditure.
- While the personnel costs have increased by 5.5% as compared to the 2008/2009 financial year.
- Personnel Cost has increased and we need to take stock and determine whether or what the level of increased/improved services (output and outcomes) has been. There is a serious need to consider the level of efficiency, effectiveness and productivity

Financial Year	2007/8	2008/9	2009/10
Salaries (R)	12 648 216	17 316 805	19 567 990

- A new organisational structure is to be implemented in 2010 / 2011 to address, inter alia improved customer service through a decentralised Town Management model, the re-organization of all municipal departments/units, and several positions.

• Actual Expenditure vs. Budgeted Expenditure

Purpose: The purpose of this ratio is to identify deviations between actual and budgeted expenditure and to ascertain reasons for the deviations.

Formula: $\frac{\text{Actual Expenditure less Budgeted Expenditure}}{\text{Budgeted Expenditure}}$

These figures are found in the 2009/10 Financial Statements

Actual Expenditure 2009/10	Budgeted Expenditure 2009/10	Variance in R	Variance in %
22 349 082	42 382 213	20 033 131	47%

Analysis and interpretation

- The acceptable norm for this ratio is that actual expenditure should not be less than 50% of budgeted expenditure and furthermore actual expenditure may not exceed 50% of the expenditure budgeted for.
- The municipality is in excess with 3%.

• Repairs and Maintenance/Total Operating Expenditure

Purpose: The purpose of this ratio is to determine whether municipality is spending adequate amounts on Repairs and Maintenance.

Formula: $\frac{\text{Repairs and Maintenance}}{\text{Total Operating Expenditure}}$

These figures are found in Appendix to the AFS.

YEAR 09/10		
Repairs and Maintenance	Total Operating Expenditure	%
1 790 566	22 349 082	8%

Analysis and Interpretation

- The norm for this ratio is that Repairs and Maintenance should equal at least 10% of Total Operating Expenditure.
- The municipality is within the norm.
- The low ratio could indicate that Property, Plant and Equipment are not being maintained adequately, which could impact on the useful life of the assets as well as escalating cost on deferred maintenance.
- Repairs and Maintenance increased to R 1 790 566 in 2009/10

3.1.3 ASSET MANAGEMENT

- **Acquisition of Property, Plant & Equipment – Actual vs. Budget**

Purpose: The purpose of this ratio is to identify per class of asset whether a municipality has a variance of more than 5% when actual and budgeted PPE acquisitions are compared.

Formula:
$$\frac{\text{Actual Acquisition of PPE} - \text{Budget Acquisition of PPE}}{\text{Budgeted PPE Acquisition}}$$

These figures are found in the 2009/10 FS

YEAR 2009/10			
Actual	Budget	Variance (R)	Variance (%)
20 402 021	67 309 565	46 907 544	30%

Analysis and interpretation

- The improvement of spending is an indication of better planning, improved capacity and Implementation of Internal Control.
- Management should strive to spend the entire capital or commit fund at least ensure that the variance between the budget and actual expenditure is less than 5 per cent because infrastructure investment is crucial for social and economic development.

- **Debtors Collection Period**

Purpose: The purpose of this ratio is to calculate the debtors' collection period of the municipality by comparing the year-end balance of certain debtors, with the revenue earned from those debtors during the financial year.

Formula: $\text{Consumer Debtors before provision for Bad Debts} / \text{Total Revenue}$

These figures found on municipal data of 2009/10 and notes to the Municipal Financial Information as supplied by financial services.

YEAR 09/10		
Consumer Debtors	Operating Income	Collection Period (days)
35 593 410	10 227 946	

Analysis and interpretation

- The norm is 42 days and will be used as basis of interpretation.
- The municipality is not within the norm and improved debt collection is required to ensure the debt collection period is brought within the norm.

Recommendation

- That the municipality continues to improve its cash flow management and Budget control
Ensure update bank reconciliation
Improve reporting to council as per MFMA requirements.
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4. HALF-YEAR BUDGET STATEMENT: 31 DECEMBER 2009 (JULY 2009 – DECEMBER 2010 YEAR TO DATE PERFORMANCE)

The municipality's **Total Budget** amounts to R 109 841 226
(Operating Budget: R42 531 662 and Capital Budgets: R76 309 565)

4.1. OPERATING EXPENDITURE

Expenditure for December 2009 amounts to R 42 382 213 and to date the Total Expenditure is R 22 349 082 or 52% of the Total Operating Budget of R..... Expenditure, higher than the pro-rata 50% is registered on and is attributed to the following factors:

(a) An in personel cost in December due to bonuses

1. **Salaries and Allowances** Budget amounts to R19 567 990 and R98 45 472 (50%) has been spent,

6. **Repairs and Maintenance** Budget amounts to R 3 605 875 and R1 790 566 (49%) has been spent,

8. **Overtime:** Budget amounts to R288 000 and R144 000 (50%) has been spent. The overtime spending up till September 2010 is R144 000, at the current rate it is expected that the actual overtime for the year will be 100% more than the budgeted amount.
Some officials work more than 40 hours overtime per month. This remains an area of serious concern.

9. **General Expenses** Budget amounts to R16 443 848 and R 9 805 302 (59%) has been spent, 9% more than the pro-rata spending. These is due to over expenditure on bulk purchase of electricity, advertisement, communication, travel and accommodation and subsidization of capital projects.

4.2. CAPITAL EXPENDITURE

The **Total Capital Expenditure** for the month ending 31 December 2010 amounts to R 20 402 021. Which is 30% against the approved budget of R67 309 565

It is however anticipated that over 90% of the Capital Budget will be spent by 30 June 2010.

Breakdown of Capital Expenditure:

PARTICULARS	2009/10 BUDGET	EXPENDITURE TO DATE	% SPENT
Land and Buildings	600 000	578 420	99
Roads			
Water	66 709 565	19 823 601	29
Electricity			
Sewerage			
Housing			
Plant & Equipment			
Office Equipment			
Playpark			
Library			
Grand Total Capital Expenditure	67 309 565	20 402 021	30

**Total Capital Expenditure incl. Commitments*

4.3. OPERATING REVENUE

The **Operating Revenue** generated for the period to date amounts to date R 4 556 397 or 41% of the approved budget of R 10 927 412

It should be noted that R 392 934 or 40% of the **Assessment (Property) Rates Income** of R 960 000 budgeted, has been generated to date.

Service Charges include revenue related to Consumption Charges (Water and Electricity), Refuse Removal, Sewerage, Availability Fees, New Connection Fees, Reconnection Fees, Sundry Income, etc.

[Budgeted Amount = R9 586 642; Actual = R4 101 220:42%].

The major variance is registered under everything, due to lack of credit control.

Other Revenue represents all revenue generated which is not specified on the prescribed MFMA Section 71 Report. Budget Amounted is R 2 972 020, Actual R 4 876 420 (164%) This attributed to short-fall in cashflow due poor service payment.

Traffic Fines Income to date is R24 040 (37%) of R 65 000, only 12%) of actual spend on traffic personnel is generated. This has a very serious impact on the budget as only R 48 080 income is anticipated for the year instead of R385 223 (R320 000 shortfall). Despite interventions recommended by Finance Directorate, after a great deal of research, little commitment has been forthcoming to turn around the situation.

Additional Grant Allocations: In terms of Government Notice additional allocations has been gazetted in respect of Equitable Share and MIG, respectively.

4.5. DEBTORS

The total **Outstanding Debt** as at 31 December 2009 is R 28 574 000. The Collection Rate for the period July 2009 to December 2010 is 61% and compares unfavourable to the budget forecasting for the financial year. The Debt Collection Rate of 61% (R28 574 000) is recorded for the first 6 months of the 2009 / 2010 Financial Year. The municipality must improve the collection rate to reach the target set for the end of the year.

Major Debtors Per Section

Major Debtors Section	December	%
Residential	27 129 654	
RDP and Indigent		
Business	906 692	
Industrial		
Government	537 654	
Study Loans		
Farms		
Dormant Accounts		
Untraceable		
Deceased		
Query Accounts		
Capital Amount	4 827 000	

Observations:

There is a noticeable lower collection rate in two towns where the municipality is not providing quality basic services: Dealesville and Hertzogville.

Lack of enforcement for debt recovery and collection.

Delays in the installation of Water Meters have added to the increased debt.

The current economic conditions has certainly impacted on the ability to pay due to rising cost of fuel, transport, household commodities, interest rates, vehicle and home loan instalments, etc.

The slow economic growth in the municipal area has contributed to the high unemployment rate.

The appointment of the Debt Collector and computerization of credit control beef up the unit to ensure monitoring and addressing variance, As per the prescription of the Municipal Systems Act, Act 32 of 2000, Section 96 (a), Municipalities must collect all outstanding debt. It is important for the municipality to be financially sound to meet its challenges of increased repairs and maintenance of existing assets/infrastructure and further investment in municipal assets/infrastructure.

The following are some challenges, interventions implemented and in progress:

- We have identified the Installation of **Water Meters** as the solution.

Provision of R3 053 250 has been made on the 2009/2010 Capital Budget for this project and work have commenced.

Unfortunately the public awareness and communication has not materialised.

This is one of the single most important Financial Viability interventions along with a Credit Control and Debt Collection System. The delay in water meter installation is causing unnecessary water expenditure.

Full implementation of the current system will also help to alleviate the situation.

CREDITOR ANALYSIS

All creditors were paid within 30 days of receiving the relevant invoice or statement as prescribed in terms of Section 65(e) of the MFMA. As at end of December 2009 the total amount payable, which represent commitments by Council .

4.8. GRANTS

The following Grants were received to date:

Grant	Budget	Actual
Equitable Share	27 147 000	11 311 412
MSIG	735 000	735 000
MIG	67 309 565	20 402 021
Housing		
Provincial Library Services		
Finance Management Grant	750 000	526 000
TOTAL:		

RECOMMENDATIONS

- 1. That Council take note of the Mid-year Assessment and Financial Health and Performance Indicators in the report.**
- 2. The Land Sales processes will need to be expedited in order to prevent the municipality from experiencing cash flow problems.**
- 3. The poor performance on Traffic Income needs to be addressed urgently.**
- 4. Communication for and Installation of Water Meters Readers must be expedited by the Technical Directorate.**
- 5. The Municipal Managers' commitment in terms of Debt Collections role must improve.**
- 6. Overtime, Personnel, Telephone and other Overheads must be reduced.**
- 7. Due to substantial income not realised, in particular Traffic, Service Charges and expenditure must be closely monitored and reduce accordingly.**
- 8. That Council take note that an Adjustments Budget is necessary as there are no indications that the anticipated shortfall will or can be realised.**

*Report compiled by **K T P MANAGEMENT CONSULTANCY** for presentation by **Mr Kgosi Plagangwe**: Executive Manager*