

REPORT BY THE MAYOR OF KWADUKUZA MUNICIPALITY, CLLR. DOLLY GOVENDER, ON THE OCCASION OF THE TABLING OF THE 2019/2020 SECTION 52(D) FIRST QUARTER BUDGET AND PERFORMANCE ASSESSMENT REPORT

Thursday, 31 October 2019

Speaker of Council, Cllr. Phumlile Zulu

Chief Whip of Council, Cllr. Dumisani Ndimande

Fellow councillors

Amakhosi

Municipal staff led by the MM

Members of the media

Ladies and Gentlemen:

It is an honour for me to table to you, this 2019/2020 Section 52(D) First Quarter Budget and Performance Assessment Report. This is an account of how much we have been able to do since the beginning of the financial year in July 2019.

In terms of the operating budget:

In the First Quarter assessment, the actual revenue billed and/or collected to date is R 380 million. The negative variance of approximately R45 million or -11% is realised at the end of the quarter under review.

The actual expenditure to date is R347 million. A negative variance of R111, 4 million or - 24% has resulted at the end of the quarter under review.

The operating budget is discussed under the following broad headings: **Revenue and Expenditure**.

REVENUE

The reasons for the R45 million variances is discussed with reference to Table C4 of the Budget Statement Tables of this item, and is explained, It should be noted that the main contributing factors to the over collection/billing includes the following:

Property Rates

- Property rates reflects a positive variance of R9 million. This is mainly due to increase in billing for State Owned, Business and Residential Developed Properties.
- The total annual revenue budget for State Owned Properties is R 9,9 million and the Municipality has collected/billed R 7,361 million as at end September 2019.

Service Charges – Refuse Revenue

- Refuse revenue reflects a positive variance of R1,4 million. The variance in this revenue category is due to a higher billing as at 30 September than anticipated.
- However, this higher billing than anticipated can also be a consequence of the indigent registration process where various billed consumers may be reversed if they qualify for indigent benefits once the verification process for indigent qualification has been finalised.

Rental of Facilities and Equipment

- The Municipality has received R1,085 million of the total revenue budget of R1,686 million. The Municipality has entered into numerous lease agreements to rent municipal properties, hence the increase in rental revenue.

Transfers and Subsidies

- Transfers and Subsidies reflects a positive variance of R25,8 million as at 30 September 2019.
- The transfer recognised - Operational revealed a positive variance due to grants received in advance of the anticipated timing. The variance will reduce as the year progresses.

The main contributing factors to the under collection/billing includes the following:

Fines, penalties and forfeits

- Fines, Penalties and Forfeits reflect a negative variance of R6,157 million as at the end of the first quarter.

- The unfavourable variance of R6,157 million in this line item is as a result of the fines revenue raised on a cash basis whilst the budget is based on iGRAP 1.
- GRAP requires us to recognise the total fines issued and not only those collected. This exercise is currently underway for the first quarter and it is anticipated that once this exercise is finalised and the journal is captured on the system the variance will reduce significantly.

Service Charges – Electricity

- Service Charges - electricity reflects a negative variance of R58,638 million as at the end of the first quarter.
- The variance of R58,638 million in this revenue category is as a result of September billing which was not done at the time of compiling the report. It is anticipated that once the billing is done the variance will decrease.
- However, it must be noted that the billing is usually done on the 7th of the subsequent month whereas the report is based on the figures as at the end of each month. As a result this nature of variance will always exist during the financial year and will be reconciled at year end.

Interest on External Investments

- Reflects a R1,790 million variance from the budgeted revenue. The variance is a result of the timing of the Investment journals captured on the system. The bank statements are received on the 1st of each month, and interest is then captured onto the financial system.
- This is similar to the above where there is a timing difference allocated to the month end close of the financial system in accordance with the mSCOA Regulations.
- At present the interest received is R7,380 million and has been captured on the system during the first week of October 2019.

Other Revenue

- Other Revenue category reflects a negative variance of R16,272 million. The reason is mainly due to the budget for costing which is a secondary transaction being included in both the primary revenue and expenditure categories of the Municipality.
- The costing budget will be correctly accounted for during the Adjustments Budget process.
- At present, the costing module has been tested and is in the final implementation stages. This will be fully functional by the end of November 2019.

EXPENDITURE

The First Quarter Budgeted Operating Expenditure for the 2019/20 financial year was R459 million. The actual expenditure recognised as at 30 September 2019 was R347,68 million which implies that the municipality has realised a negative variance of approximately R111,39 million in expenditure.

The reasons for the variances have been discussed with reference to Table C4 of the Budget Statement Tables, and is explained as follows:

Employee related costs

- The employee related costs shows a negative variance or savings of around R15 million as at the end of the September 2019. The variance is as a result of the timing of the filling of vacant positions, as well as the non-finalisation of the higher grading of the Municipality.
- The employee related budget caters for the anticipated grade conversion of the Municipality which will affect all salary levels of municipal staff once implemented.
- The Human Resource department have recently advertised various vacancies across all business units and costs within this category should increase once the successful incumbents take office.

- However Council to note that approximately R10, 413 million (26%) of the Overtime Budget has been spent at the end of September. If this trend of expenditure continues, the Overtime Budget will be insufficient for the financial year, taking into account the December and Easter holiday season and numerous public holidays that are upon us.
- If the staff compliment of the organisation continues to rise, together with the rise in overtime and standby costs, the employee related budget may show a minimal variance by year end.

Debt Impairment

- Debt Impairment shows a negative variance of R2,165 million as at 30th September 2019.
- Items included in this category are bad debts written off and contribution to bad debt provision which at the time of compiling the report; there were no provisions recorded on the financial system resulting in this variance.
- However council to note that the above non cash provisions are required in terms of GRAP which are normally calculated at the end of the financial year; as a result the variance in this line item is anticipated to be eliminated only at year end.

Finance charges

- Finance charges reflect a negative variance of R5,162 million as at the end of September 2019.
- The interest together with redemption payments are made at specific times during the financial year, hence the variance. To date, only one payment made on the 26th September is reflected on the financial system. The next finance charge payments are due in December, March and June 2020.

Bulk purchases

- Bulk purchases reflect a negative variance of R13,096 million as the September bill was yet to be processed. This negligible variance is concerning as the invoice for July purchases amounted to R 87,393 million and August invoice totalled R 84,025 million.
- If this trend continues together with the growth in energy losses, the Bulk Purchases budget may not be sufficient till year end and will need to be revised during the Adjustment Budget process.

Other materials

- The other material reflects the underspending of R2,109 million as at the end of September 2019.
- The variance is due to minor underspending in various line items across the Municipality.
- Requisitions to the value of R553 000 have been placed on the system and are pending on the various votes. Expenditure should increase during the 2nd quarter of the financial year.

Contracted services

- Contracted services shows an under spending of R18,860 million as at the end of September 2019, the reason for the variance is mainly due to the timing of the projects.
- There are also certain annual projects for which the expenditure will only be considered closer to year end, e.g. Civil and Electrical Asset Verification Project.
- Also, various Electrical budget clearance certificates to the value of R18 million were issued recently for maintenance contracts. Expenditure for electrical contracted services will increase once the SCM processes are finalised.

Transfers and subsidies

- Transfers and subsidies shows an underspending of R1,341 million as at the end of September 2019.

- The variance is as a result of timing of the projects, expenditure should increase during the course of the financial year.

Other expenditure

- The other expenditure category reflects an under spending of R53,075 million as at the end of September 2019.
- During the approved budget process, the costing, which is a technical non-cash transaction which is in terms of MSCOA, as well as other contributions was accounted for under the other expenditure category.
- To date, no timesheets have been captured onto the system, resulting in this huge variance. However, the non-capturing of this journal does not affect the primary transactions of the Municipality as it does not have a direct financial impact on the Municipality. The costing journals are in the process of being finalised.

In terms of the operating budget:

The capital grant allocation and public contribution for the financial year is R 80,609 million, consisting of:

- Municipal Infrastructure Grant (MIG) – R 49,772 million
- Electricity Demand Side Management Grant (EEDMS) – R 6 million
- Integrated National Electrification Programme (INEP) – R 10 million
- Housing Accreditation – R60 000 for the procurement of Furniture, Tools and Equipment for the Housing section. No expenditure reflected to date.
- Museum Subsidy – R3 million for the Construction of a New Museum. Funding of R10 million has been allocated over the MTREF for the project. The EDP business unit is the implementing agent for the project, however there is no expenditure to date as at end September 2019.
- Department of Trade & Industry (KwaDukuza Mall Project) – R5 million
- Roll-over IFA public contribution of R3,020 million for Upgrade of Tinley Manor Beach Facilities, and
- Roll-over public contribution of R3,756 million for the KwaDukuza Mall project, with expenditure of R65,7 thousand.

The Municipality has spent R7,860 million MIG (excl. vat), and R1,177 million of EEDMS and R142,3 thousand of INEP funding. There are slight differences in the reporting of the MIG grant expenditure on SC7, as the Municipality can only recognise revenue to the actual receipt of the grant allocation. The balance of the MIG funded capital expenditure will be recognised once the next tranche of the MIG allocation is received.

Also, payments for the INEP and EEDMS grant funded housing projects have been incorrectly booked on the financial system, as both payments are INEP as per the business unit's roll-over application. These errors will be corrected via journals in the month of October.

R5 million Provincial allocation from COGTA was received for the Upgrade of Theunissen Park in the 2018/19 financial year. A roll-over application of R4,010 million was made by the Municipality. Of the unspent grant allocation, R1,286 million has been spent as at end September 2019. Once approval is received, the grant and the expenditure will be adjusted during the Adjustments Budget process.

Council Funding

- There is under-spending of approximately 69% as at 30th September 2019 in the Council/Internal funding, with the Municipality spending approximately 41% of its first quarter Capital Budget.

Borrowings

- R15 million allocation for the purchase of Office Space and R15 million for the New Dukuza Substation. The tender for the loan application for the Office Space has been approved and will be finalized once the Office Space is identified for procurement.
- The R15 million loan application for the New Dukuza Substation is currently at tender specification and once approved will be advertised. The committee were awaiting revised cash flow projections of the intended draw-down of the loan from the Electrical Engineering Business Unit.

In terms of Consumer Debtors:

Consumer debtors amount to R 237 million as at the end of September 2019. This indicates an increase of R46 million from June 2019 in which the debt was R190 million, highlighting an approximately 24% increase from previous financial year.

The debt grew by R79 247 710 from the June 2018 financial year in which the debt was R 157 751 471, highlighting a 50% growth in debt.

The majority of the debt under this category is over 120 days. Although the municipality has implemented numerous credit control measures to accelerate collections, especially in this “old debt” category, the debt has consistently grown from previous financial years. The tables below indicate the consumer debt for the three financial years. Various accounts are handed over, defended matters (lengthy legal processes), liquidated estates and estate late matters which pose a challenge as regards debt collection. There are also certain accounts which are under query for various reasons, namely resolution of valuation appeals, replacement of faulty meters, properties awaiting expropriation, verification of government accounts prior to payment, etc.

Conclusion:

With the powers vested in me I wish to open the floor for discussion and approval of this item by the Council.