

A1 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT FOR 2014/2015 BUDGET
(6/1/1- 2014/2015)

Report: Executive Mayor (Municipal Manager): 2014-01-22

1. PURPOSE

The report is submitted to ensure that the Executive Mayor is able to exercise her oversight responsibility over the financial management of the municipality.

2. BACKGROUND

The mid-year budget and performance assessment report (section 72 report) is compiled in terms of section 72 of the Municipal Finance Management Act, 2003; which stipulates as follows:

72. (1) The accounting officer of a municipality must by 25 January of each year-

- (a) assess the performance of the municipality during the first half of the financial year, taking into account-*
 - (i) the monthly statements referred to in section 71 for the first half of the financial year.*
 - (ii) the municipality's service delivery performance during the first half of the financial year, and the service deliver targets and performance indicators set in the service delivery and budget implementation plan.*
 - (iii) the past year's annual report, and progress on resolving problems identified in the annual report; and*
- (b) submit a report on such assessment to-*
 - (i) the mayor of the municipality;*
 - (ii) the National Treasury; and*
 - (iii) the relevant provincial treasury.*

(2) The statement referred to in section 71(1) for the sixth month of a financial year

(3) The accounting officer must, as part of the review:

- (a) make recommendations as to whether an adjustments budget is necessary: and*
- (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.*

In response to the indicated requirements, this report will incorporate the following main elements:

- (1) An analysis of the budget performance of the Municipality, as reflected in its section 71 budget reports for the first six months of the 2014/15 financial year; and
- (2) An interpretation and assessment of the indicated analyses by the Accounting Officer; including subsequent recommendations and actions envisaged to improve the Municipality's planned service delivery and budget performance.

3. DISCUSSIONS

The content and format of this report is for the month ended 31st December 2014 and is based upon the monthly electronic reports to be submitted to the Provincial Treasury and has the statements to enhance consistency. The report is segmented into two parts which will included the financial performance and the service delivery and budget implementation plan.

PART 1: FINANCIAL PERFORMANCE

This section provides an analysis of the budget performance of the Municipality, as reflected in its section 71 budget reports of the Municipality during the 1st half of the year commencing from 1st July to 31st December 2014.

The report contains the following statements:

- Statement of Operating Revenue & Expenditure
- Actual Capital Acquisition
- Cash Flow Statement
- Age Analysis of Debtors
- Debtors Payment Statistics
- Age Analysis of Creditors
- External Investments
- Material variance & explanations

PART 2: NON-FINANCIAL PERFORMANCE

This section provides an interpretation and assessment of the indicated analyses by the Accounting Officer; including subsequent recommendations and actions envisaged to improve the Municipality's planned service delivery and budget performance

- Service Delivery Budget Implementation Plan

Part 1: Financial Report

Executive Summary

The statement is assessed by summarizing how the municipality incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period.

A Profit & Loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the provision of basic services

The statement is prepared on a similar basis to the prescribed budget format which details revenue by source type and expenditure by category and/or input type.

The municipality's total accumulated operating revenue for the first semester ending 31st December 2014 amounts to R 260 million which indicate a growth in revenue of R 28 mil when compared to the revenue generated as at 31st December 2013 of R 232 million. The operating expenditure amounts to R 170 million which also reflect a relative decrease of R 78 million when compared to the same period ending 31st December 2013. The operating surplus for the first semester was R 90 million which is a significant improvement bearing in mind that the municipality had an operating deficit of R 11 million when compared to the same period ending 31st December 2013.

The municipality has put into place various mechanism to ensure that there's improvement in the completeness of revenue which included data cleansing, credit control, registering of indigent households and implementing of the new general valuation roll. The municipality has also commenced the processes of ensuring that every household within Lekwa Local Municipality is levied monthly for services. Though the general economy is under severe pressure the municipality has ensured that the tariffs for sale of services remain affordable to the general community.

The overall revenue not realised as per the first semester forecast amounts to R 15 million (6%) while the expenditure reduction amounted to R 171 million (50%). The high saving on expenditure is attributable to austerity measures that were put in place for the first semester. This measures will assist in ensuring that the municipality is able to prepare a realistic and credible budget.

Revenue realised from electricity sales was less with 11% (R12 million), water less with 10% (R 1 million), waste water was less with 26% (R 3 million) when compared to the first semester projections ending 31st December 2014. The provision debt impairment and depreciation will be made in the interim financial statements. The bulk purchases were less with 45% (R 48 million) this is mainly due to the municipality's inability to raise sufficient revenue to service the debt. With the introduction of the service provider who will be installing smart meters this will assist in ensuring that the Municipality is able to generate adequate revenue which will in turn allow the municipality to pay the Eskom account. Contracted services were R 16 million which is a 24% (R 3 million) above the projected expenditure as at 31st December 2014.

From the midyear performance assessment it is clear that most of the departments are currently operating at a loss. It should also further be noted that some departments are non-revenue generating services and as a result these losses are either subsidised through the equitable shares or from revenue raised from service charges.

MP305 Lekwa - Budget Statement - Financial Performance (revenue & expenditure) - December 2014

Description	Budget Year 2014/15						
	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands						%	
Revenue By Source							
Property rates	52 600	4 481	26 555	26 300	255	1%	53 109
Property rates - penalties & collection charges					-		
Service charges - electricity revenue	227 984	22 167	101 430	113 992	(12 562)	-11%	202 860
Service charges - water revenue	40 978	1 246	18 531	20 489	(1 958)	-10%	37 061
Service charges - sanitation revenue	24 730	111	9 194	12 365	(3 171)	-26%	18 387
Service charges - refuse revenue	13 861	1 139	7 060	6 931	130	2%	14 121
Rental of facilities and equipment	595	41	473	297	176	59%	947
Interest earned - external investments	255	52	65	127	(63)	-49%	129
Interest earned - outstanding debtors	18 200	2 158	12 000	9 100	2 899	32%	23 999
Fines	2 907	12	156	1 454	(1 297)	-89%	312
Agency services	16 331	8 872	19 947	8 166	11 781	144%	39 894
Transfers recognised - operational	90 235		63 603	45 117	18 486	41%	90 235
Other revenue	1 540	322	1 156	770	386	50%	2 312
Total Revenue (excluding capital transfers and contributions)	490 216	40 602	260 168	245 108	15 061	6%	483 366
Expenditure By Type							
Employee related costs	127 068	10 306	62 864	63 534	(669)	-1%	125 729
Remuneration of councillors	10 503	771	5 135	5 252	(117)	-2%	10 269
Debt impairment	90 818	10	74	45 409	(45 334)	-100%	149
Depreciation & asset impairment	139 196		-	69 598	(69 598)	-100%	-
Finance charges	764		-	382	(382)	-100%	-
Bulk purchases	213 085	22 227	58 342	106 543	(48 201)	-45%	116 683
Other materials	5 089	602	2 747	2 545	202	8%	5 494
Contracted services	26 340	2 482	16 358	13 170	3 188	24%	32 716
Transfers and grants	11 393	151	428	5 697	(5 269)	-92%	856
Other expenditure	58 793	3 383	24 166	29 397	(5 231)	-18%	48 332
Loss on disposal of PPE					-		
Total Expenditure	683 050	39 932	170 114	341 525	(171 411)	-50%	340 227
Surplus/(Deficit)	(192 834)	670	90 055	(96 417)	186 472	(0)	143 139

Actual Capital Acquisitions

The actual expenditure on capital budget for the first semester amounts to R 18, 241, 502.

Most of the projects have been practically completed which are rollover projects from the 2013-14 financial period, with the retention being withheld by the Municipality amounting to R 4, 137, 424. Most of the projects listed below will be incurring expenditure on the 50% retention withheld rather than construction costs. The remaining 50% of the retention withheld will be released 12 months after the practical completion certificate has been issued.

The statement indicates that for the first semester the overall capital expenditure was under spent with R19, 100, 846 when compared to the forecast expenditure as at 31st December 2014. Furthermore there was under expenditure of R 5, 784, 065 when compared to first semester ending December 2013. The underperformance of the capital expenditure relates directly with the transitional arrangement where Rand Water was appointed as the implementing agent in August 2014. The expenditure incurred relates to the replacement of AC Pipes, Installation of Boreholes & VIP toilets, Rising Main Phase 2, Construction & Upgrading of Stormwater Network Phase 3, Rooikopen Sewer network amongst others. The municipality is currently in the process of procuring service providers for the implementation of the 2014-15 projects.

The proposed capital budget for 2013-14 rollover projects will be revised when the 2014-15 adjustment budget is prepared. This will ensure that the Municipality provides funds only for the work that needs to be done on site as well as the retention that maybe due to the contractor. This will further reduce the burden of over commitments on the capital budget.

The rollover projects that were since completed in the 2014-15 financial year will be included in the 2014-15 adjustment budget as well as the following additional projects:

- Installation of Bulk Water infrastructure and replacement of AC pipes
- Rooikoppen Sewer Network
- Raising Main

Ward	2013-14 Approved Adjustment Budget Projects Retentions	Retentions Rollover Budget 2014-15	Nov-14	Dec-14	YTD Expenditure (31 Dec 2014)	YTD Budget (31 Dec 2014)	Variance
			<i>Outcome</i>	<i>Outcome</i>	<i>Outcome</i>	<i>Budget</i>	<i>Outcome</i>
Ward 11	Construction of Multi-Purpose Community Hall for Rooikopen	R 296 267.46			R -	R 148 133.73	R (148 133.73)
Ward 4	Upgrading of the Standerton Waste Water Treatment Works	R 1 230 312.86		R 130 723.22	R 378 704.54	R 615 156.43	R (236 451.89)
Various	Replacement of AC pipes with PVC pipes in Lekwa Municipality	R 433 419.91			R -	R 216 709.96	R (216 709.96)
Rural Areas	Installation of Boreholes in Lekwa Municipality in farm areas	R 116 516.67			R -	R 58 258.34	R (58 258.34)
Ward 15	Construction of Multi-Purpose Community Hall for Sakhile	R 325 652.55			R -	R 162 826.28	R (162 826.28)
Ward 4	Upgrading of the Standerton Waste Water Treatment Works	R 185 103.37			R -	R 92 551.69	R (92 551.69)
ward 08,10	Re-construction of roads within Lekwa Municipality phase 3	R 258 864.46			R -	R 129 432.23	R (129 432.23)
various wards	Installation of Highmast lights in Lekwa Municipality	R 98 500.00			R 98 500.00	R 49 250.00	R 49 250.00
ward 10	Water-Treatment-works(Raw water Pumpstation)	R 95 028.32			R -	R 47 514.16	R (47 514.16)
Ward 10& 11	Refurbishment of Bulk Water Infrastructure for Standerton and Installation of water connections to 53 Households in Rooikopen	R 156 741.94			R -	R 78 370.97	R (78 370.97)
ward 07	Construction and upgrade of stormwater network phase 3	R 250 308.00			R -	R 125 154.00	R (125 154.00)
Ward 15	Sporting Facilities in Lekwa LM	R 266 298.75			R -	R 133 149.38	R (133 149.38)
Meyerville & Sakhile	Beautification of Parks	R 279 461.98			R -	R 139 730.99	R (139 730.99)
Morgenzon	Beautification of Parks	R 239 976.22			R -	R 119 988.11	R (119 988.11)
		R 4 232 452.49	R -	R 130 723.22	R 477 204.54	R 2 116 226.25	R (1 639 021.71)

Ward	2013-14 Approved Adjustment Budget Projects	Rollover Budget 2014-15	Oct-14	Nov-14	Dec-14	YTD Expenditure (31 Dec 2014)	YTD Budget (31 Dec 2014)	Variance
			<i>Outcome</i>	<i>Outcome</i>	<i>Outcome</i>	<i>Outcome</i>	<i>Budget</i>	<i>Outcome</i>
Ward 11	Construction of Multi-Purpose Community Hall for Rooikopen	R 1 045 368.13				R -	R 522 684.07	R (522 684.07)
Ward 4	Upgrading of the Standerton Waste Water Treatment Works	R 1 244 398.77				R -	R 622 199.39	R (622 199.39)
Various	Replacement of AC pipes with PVC pipes in Lekwa Municipality	R 1 126 769.54				R 815 074.90	R 563 384.77	R 251 690.13
ward 11	Installation of water& sanitation services in Rooikopen for 53 households	R 103 346.60				R -	R 51 673.30	R (51 673.30)
ward 10	Standerton Water Works & bulk water Supply Refurbishment	R 1 056 000.00				R -	R 528 000.00	R (528 000.00)
	Electrify 92 Rural Farm Worker Houses	R 1 968 984.86				R -	R 984 492.43	R (984 492.43)
Rural Areas	Installation of Boreholes & VIP	R 2 785 579.70	R 447 784.79	R 171 038.00		R 2 050 160.79	R 1 392 789.85	R 657 370.94
ward 8	Standerton Landfill Site Phase 2	R 464 635.50				R 464 635.50	R 232 317.75	R 232 317.75
ward 4	Upgrading of Standerton Sewer Treatment Works	R 2 055 680.68				R -	R 1 027 840.34	R (1 027 840.34)
ward 08,10	Re-Construction of Roads within Lekwa Municipality Phase 3	R 531 051.96				R -	R 265 525.98	R (265 525.98)
	RISING MAIN PHASE 2	R 1 024 939.46			R 1 024 939.46	R 1 024 939.46	R 512 469.73	R 512 469.73
ward 14 Morgenzon	Construction and Upgrade of Stormwater Network Phase 3	R 1 002 992.29		R 85 609.45		R 613 012.99	R 501 496.15	R 111 516.85
2,3 & 14	Sporting Facilities in Lekwa LM	R 1 223 916.74				R 461 645.99	R 611 958.37	R (150 312.38)
		R 15 633 664.23	R 447 784.79	R 256 647.45	R 1 024 939.46	R 5 429 469.63	R 7 816 832.11	R (2 387 362.49)

Ward	Project Description	Approved Budget 2014/2015	Oct-14 <i>Outcome</i>	Nov-14 <i>Outcome</i>	Dec-14 <i>Outcome</i>	YTD Expenditure (31 Dec 2014) <i>Outcome</i>	YTD Budget (31 Dec 2014) <i>Budget</i>	Variance <i>Outcome</i>
1,2,3,4,5,6, 7,8,9,10,11, 12,13,14&1 5	Installation of Bulk Water Infrastructure and Replacement of AC pipes in Lekwa Local Municipality	R 10 000 000.00			R 2 196 240.61	R 2 196 240.61	R 5 000 000.00	R (2 803 759.39)
4	Standerton Waste Water Treatment Works Upgrade	R 15 794 300.00				R -	R 7 897 150.00	R (7 897 150.00)
1,2,3,4,5,6, 7,8,10,11, 14 & 15	Replacement of AC pipes with PVC Pipes	R 5 000 000.00				R -	R 2 500 000.00	R (2 500 000.00)
9,12 & 13	Installation of Boreholes in Rural Areas	R 1 500 000.00				R -	R 750 000.00	R (750 000.00)
9,12 & 13	Installation of Sanitation services in Rural areas of Lekwa LM	R 1 190 000.00				R -	R 595 000.00	R (595 000.00)
11	Rooikoppen Sewer Network	R 20 000 000.00			R 8 929 386.59	R 8 929 386.59	R 10 000 000.00	R (1 070 613.41)
	Vehicles	R 900 000.00		R 192 749.54		R 784 368.53	R 450 000.00	R 334 368.53
	Furniture & Office Other Equipments	R 400 000.00	R 161 763.59	R 61 849.75	R 24 701.50	R 424 829.70	R 200 000.00	R 224 829.70
	Total	R 54 784 300.00	R 161 763.59	R 254 599.29	R 11 150 328.70	R 12 334 825.42	R 27 392 150.00	R (15 057 324.58)

Expenditure on Repairs & Maintenance

The municipality has spent R 10.3 million on repairs and maintenance, this reflects an increase of R 4, 6 million when compared to December 2013. The municipality continues to under invest on repairs and maintenance taking into consideration the streetlights that are not working, roads that have potholes and constant failure of bulk infrastructure.

Though the under investment can be attributed to inadequate revenue collection, the municipality should improve the revenue collection so that more investment can be made towards repairs & maintenance as the cost of replacing collapsed infrastructure will be much steeper than that of regular maintenance.

Sufficient provisions should be made in the 2014-15 adjustment budget as well as the 2014-15 MTREF going forward.

Cash flow Statement

The purpose of this statement is to keep an account of the different activities of the Council. It also provides information on the mode of generation of funds required for repayment. The cash flow statement also helps to analyze the amount of cash that would be required in order to meet the operating costs.

It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.

The actual revenue collected as at 31st December 2014 amounted to R 332 million which included Grants & Subsidies amounting to R 94 million, Service Charges amounting R 106 million, Property Rates R 12 million while the payment amounted to R 292 million of which R 98 million was paid to Eskom for Bulk Purchases, Employee Related Cost R 67 million, Contracted Services which amounted to R 16 million. The municipality had a decrease in cash held on hand amounting to R 8 million.

The Municipality's cash flow status reflects a favourable bank balance of R 45, 539, 155. It should be noted that though the municipality had a favourable bank balance at the end of the reporting month there were still outstanding creditors such as Eskom (R195mil), DWA (R80mil), Department of Transport(R65 mil). The MIG call account was R 9, 557, 276, the savings call account was at R 7, 539, 314 and demand deposit call account was R 20 000 000.

Detail	Month 1 July	Month 2 Aug	Month 3 Sept	Month 4 Oct	Month 5 Nov	Month 6 Dec	1st Semester Total
Cash Receipts by Source	Outcome	Outcome	Outcome	Outcome	Outcome	Outcome	Outcome
Property rates	2 259 162	1 216 652	2 033 693	2 727 711	2 249 244	1 939 747	12 426 209
Service charges - electricity revenue	14 987 527	13 344 421	14 813 879	17 357 877	14 091 244	17 031 811	91 626 759
Service charges - water revenue	1 459 505	926 284	1 235 099	1 372 886	1 232 715	1 281 940	7 508 429
Service charges - sanitation revenue	764 563	495 664	556 159	751 373	687 838	745 134	4 000 731
Service charges - refuse revenue	518 498	378 609	464 578	522 110	455 504	476 176	2 815 475
Rental of facilities and equipment	47 471	41 116	46 496	148 028	148 913	41 433	473 457
Interest earned - external investments	12 816	34 557	0	0	0	51 792	99 165
Interest earned - outstanding debtors	311 423	167 950	200 533	258 391	328 008	216 915	1 483 220
Dividends received	0	0	0	0	0	0	0
Fines	9 103	5 263	94 915	15 425	19 494	11 912	156 112
Licences and permits	0	0	0	0	0	0	0
Agency services	1 912 331	95 009	5 684 015	1 645 211	1 738 051	4 867 748	15 942 365
Transfer receipts - operational	35 258 000	934 000	0	0	28 345 000	20 000 000	84 537 000
Other revenue	25 320 897	21 236 105	4 718 654	12 241 193	9 388 309	2 323 703	75 228 861
Cash Receipts by Source	82 861 296	38 875 630	29 848 021	37 040 205	58 684 320	48 988 311	296 297 784
Other Cash Flow s/Receipts by Source							
Transfer receipts - capital	7 917 000	476 000	0	0	500 000	857 000	9 750 000
Total Cash Receipts by Source	90 778 296	39 351 630	29 848 021	37 040 205	59 184 320	49 845 311	306 047 784
Cash Payments by Type							
Employee related costs	10 487 649	10 389 435	10 190 850	10 864 991	10 625 840	10 305 531	62 864 296
Remuneration of councillors	772 839	894 963	895 603	897 078	903 054	770 990	5 134 527
Collection costs	0	0	0	0	0	0	0
Interest paid	0	0	0	0	0	0	0
Bulk purchases - Electricity	46 394 311	13 782 795	5 000 000	11 066 218	0	22 227 052	98 470 376
Bulk purchases - Water & Sewer	0	0	0	0	0	0	0
Other materials	550 459	129 523	188 529	219 349	1 057 362	601 577	2 746 799
Contracted services	1 477 192	2 983 247	2 535 763	2 120 482	4 759 116	2 482 392	16 358 192
Grants and subsidies paid - other municipalities	0	0	0	0	0	0	0
Grants and subsidies paid - other	10 104	0	0	0	0	150 519	160 623
General expenses	25 903 143	9 952 964	23 647 178	13 187 093	6 383 730	9 738 382	88 812 490
Cash Payments by Type	85 595 698	38 132 927	42 457 923	38 355 211	23 729 102	46 276 443	274 547 304
Other Cash Flow s/Payments by Type							
Capital assets	0	3 510 796	957 437	956 030	511 247	12 305 992	18 241 502
Repayment of borrowing	0	0	0	0	0	0	0
Total Cash Payments by Type	85 595 698	41 643 723	43 415 360	39 311 241	24 240 349	58 582 435	58 582 435
Net Increase/(Decrease) in Cash Held	5 182 598	-2 292 093	-13 567 339	-2 271 036	34 943 971	-8 737 124	-8 737 124
Cash/cash equivalents at the month/year begin:	32 280 177	37 462 775	35 170 683	21 603 344	19 332 308	54 276 280	54 276 280
Cash/cash equivalents at the month/year end:	37 462 775	35 170 683	21 603 344	19 332 308	54 276 280	45 539 155	45 539 155

Debtors Age Analysis & Debtors Payment Statistics – Part 4 a & b

The debtors balance has increased by R 37,194,103 from R 385, 597, 456 to R 422, 791, 559 when compared to the month of July 2014. Outstanding Debtors that are older than 90 days amounts to R 359,314,249 (85%) of the total outstanding debts.

The debt from households amounts to R 317 million which included indigent households whom owed R 15 million, government departments R 8 million while business owed R 68 million. Electricity contributes R 56 million of the outstanding debt, Property assessment rates R 87 million, Water R 72 million while interest on arrears amounts to R 85 million.

The average collection rate for the 1st Semester ending 31st December 2014 was 57%, the revenue collected declined with 6% when compared with the 1st Semester performance ended 31st December 2013. The low collection rate is mainly attributed to non-payment of services, and increasing arrears debt for residential households.

The resent community unrest as well as the post office strike further contributed to the municipality having such a low collection rate. The process of procuring the Smart Meters has been concluded with the service provider expected to be on site during the month of January 2015. Furthermore the municipality is in the process of establishing both the debt collection and customer care units which will assist with revenue collection. It should further be noted that the general decline in the quality of services provided by the Municipality also has a negative impact in the consumers being willing to pay for services.

Emphasis should also be made that the Municipality is currently exploring all options that will ensure that it becomes convenient for consumers to pay for their services on time. This options includes consumers being able to pay for services at convenient stores, receiving monthly accounts via sms or email. With every Council meeting be Ward meetings or general meetings, consumers should always be reminded to pay for their services.

Debtors Age Analysis & Debtors Payment Statistics – Part 4 (a)

The debtor's age analysis analyses amounts owed by customers for services rendered by the municipality according to the length of time that those amounts have remained unpaid.

Monthly Budget Statement - December Debtors Age Analysis								
Description	Budget Year 2014/15							
	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	Total	Total over 90 days
R thousands								
Debtors Age Analysis By Income Source								
Trade and Other Receiv ables from Exchange Transactions - Water	3 461	2 377	2 457	2 165	2 164	66 333	78 956	70 661
Exchange Transactions - Electricity	16 812	6 150	3 713	2 235	1 620	17 689	48 217	21 544
Receiv ables from Non-ex change Transactions - Property Rates	4 300	3 487	3 142	2 980	2 862	77 224	93 995	83 067
Transactions - Waste Water Management	1 878	1 359	1 166	1 117	1 017	40 793	47 330	42 927
Receiv ables from Exchange Transactions - Waste Management	1 136	941	859	813	767	26 698	31 215	28 278
Interest on Arrear Debtor Accounts	2 252	2 135	2 061	1 969	1 906	80 210	90 533	84 085
Other	2 477	1 592	1 112	869	719	49 790	56 559	51 378
Total By Income Source	32 314	18 041	14 510	12 148	11 056	358 736	446 805	381 939

Debtors Payment Statistics – Part 4 (b)

The table shows the amount collected by the municipality for services rendered against the service charges billing. The municipality was only able to recoup 57% (R 106 million) of the total revenue billed from July to December 2014. This indicates revenue loss amounting to R 78 million in the past six months. Refer to note 9

Reporting Month	Levied Amount	Revenue Collected	Collection Rate
July 2014	R 31,501,098	R17,751,247	56%
August 2014	R 28, 019, 515	R 14, 009, 279	50%
September 2014	R 29, 163, 020	R 16, 395, 190	56%
October 2014	R 29, 930, 944	R 21, 826, 651	73%
November 2014	R 32, 133, 254	R 18, 371, 067	57%
December 2014	R 33, 778, 228	R 18, 250, 172	54%
Total Average	R 184, 526, 059	R 106, 603, 606	57%

Creditors Age Analysis

The creditors age analysis indicates an analysis of unpaid invoices, aged by due date. The creditors are broken down into five ageing periods.

The Creditors Age Analysis shows an outstanding amount of R 342 million of which R 195 million was owed to Eskom. The municipality has taken several initiatives to ensure that the arrears amount owed to Eskom is paid. R80 million is owed to the Department of Water Affairs and R66 million was outstanding for the Department of Transport. The outstanding creditors have grown with R 100 million when compared to the first semester ending 31st December 2013.

Choose name from list - Supporting Table SC4 Monthly Budget 2014/15					
Description	Budget Year 2014/15				Total
	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	
R thousands					
Creditors Age Analysis By Customer Type					
Bulk Electricity	—	18 002	17 452	159 989	195 442
Bulk Water	—	—	—	80 802	80 802
PAYE deductions					—
VAT (output less input)					—
Pensions / Retirement deductions					—
Loan repayments					—
Trade Creditors	—				—
Auditor General					—
Mpumalanga Transport	—	4 042	4 001	57 875	65 918
Total By Customer Type	—	22 044	21 453	298 666	342 162

External Investment (Call accounts) – Part 6

The table indicates the investments and movements on the municipality's grants call accounts

Investments by maturity Name of institution & investment ID	Period of Investment	Type of Investment	Expiry date of investment	Accrued interest for the month	Yield for the month 1 (%)	Market value at beginning of the month	Change in market value	Market value at end of the month
R thousands	Yrs/Months							
Municipality								
First National Bank	Monthly	Call Account		31		9 526		9 557
First National Bank	Monthly	Call Account		-		-	20 000	20 000
First National Bank	Monthly	Call Account		26		7 513		7 539
TOTAL INVESTMENTS AND INTEREST				58		17 039	20 000	37 097

The accumulated interest earned on call accounts amounts to R 473, 136

Supply Chain Report (Deviations) – Part 7

The report indicates instances where the municipality did not adhere fully to the requirements of the Supply Chain Management policy when procuring certain goods or services. This does not result in the municipality over spending on the appropriated budget. In most cases the deviation was a result of agent, limited supplies and or strip and quote situations. Furthermore the municipality deviated from Supply Chain Process in the procuring of services which was a co-funding with Gert Sibande District Municipality. The deviation mainly related to the notice not been made for 7 days.

Refer to **Annexure "A"** a for detailed report.

Grants & Subsidies – Part 8

The municipality has received R 94 million on the Grants and Subsidies as allocated. An amount of R 9, 716,000 for MIG has not yet been transferred to the municipality this was due to the slow pace of spending of MIG allocation. This further linked to the fact that Rand Water was appointed as an implementing agent.

	Approved Budget 2014/15	YTD Allocation Dec 2014	Outstanding Allocation
Municipal Infrastructure Grant	R 33 994 000.00	R 7 917 000.00	R 26 077 000.00
Municipal Systems Improvement Grant	R 934 000.00	R 934 000.00	R -
Local Government Financial Management Grant	R 1 600 000.00	R 1 600 000.00	R -
Expanded Public Works Programme Integrated Grant for Municipalities	R 1 190 000.00	R 833 000.00	R 357 000.00
Equitableshares	R 85 034 000.00	R 62 003 000.00	R 23 031 000.00
Integrated National Electrification Programme (Municipal) Grant	R 1 500 000.00	R 1 000 000.00	R 500 000.00
Human Settlement		R 20 000 000.00	
	R 124 252 000.00	R 94 287 000.00	R 49 965 000.00

Explanatory Notes

Property Services 1

New valuation roll has been implemented with effect from the 1st of July 2014

Service Charges 2

	Approved Budget		YTD Actual		YTD Budget		Variance
	2014-2015		July 2014-Dec 2014		July 2014-Dec 2014		
PRE-PAID ELECTRICITY	R	(8 672 590.00)	R	(1 088 468.53)	R	(4 336 295.00)	R 3 247 826.47
SHOPS: PRE-PAID ELECTRC	R	(40 522 190.00)	R	(17 930 230.13)	R	(20 261 095.00)	R 2 330 864.87
SALE OF ELECTRICITY	R	(178 789 220.00)	R	(82 412 506.67)	R	(89 394 610.00)	R 6 982 103.33
SALE OF WATER	R	(40 977 890.00)	R	(18 530 548.34)	R	(20 488 945.00)	R 1 958 396.66
CLEANSING SERVICES	R	(13 861 320.00)	R	(7 059 269.57)	R	(6 930 660.00)	R (128 609.57)
SEWERAGE CHARGES	R	(24 729 600.00)	R	(10 196 570.21)	R	(12 364 800.00)	R 2 168 229.79
	R	(307 060 810.00)	R	(137 217 593.45)	R	(153 530 405.00)	R 16 312 811.55

Investment Revenue 3

Interest earned on the primary account and call accounts amounted to R 473, 136 as at the end of the first semester.

Transfer & Grants 4

To date 2419 households have been registered as indigent households and it is envisaged that the number will increase as more households are found and captured on the financial system.

Ward No	Registered
NOT DEFINED	3
WARD 1	293
WARD 2	300
WARD 3	200
WARD 4	68
WARD 5	373
WARD 6	220
WARD 7	41
WARD 8	14
WARD 10	14
WARD 11	432
WARD 14	364
WARD 15	97
Total	2419

Other Expenditure 5

The municipality has been able to reduce other expenditures as part of its cost curtailments exercise.

Contracted Services 6

	Approved	YTD Actual	YTD Variance
	Budget	July 2014 - Dec 2014	July 2014 - Dec 2014
FLEET MANAGEMENT:VUKU	R 2 239 690.00	R 1 128 751.14	R 1 110 938.86
LEGAL COST	R 4 240 000.00	R 1 984 842.42	R 2 255 157.58
VALUATION ROLL	R 1 250 000.00	R 723 990.00	R 526 010.00
PREPARATION:AFS	R 6 000 000.00	R 5 814 942.94	R 185 057.06
DATA CLEANSING	R 1 500 000.00	R 1 600.00	R 1 498 400.00
COMMISSION: PRE-PAID PAYABLE	R 1 847 810.00	R 569 203.86	R 1 278 606.14
METER READING SERVICES	R 3 312 690.00	R 2 164 399.83	R 1 148 290.17
SECURITY SERVICES	R 10 120 250.00	R 6 316 526.13	R 3 803 723.87
	<i>R 30 510 440.00</i>	<i>R 18 704 256.32</i>	<i>R 11 806 183.68</i>

Debt Collection 7

To sustain the increase in the collection rate it is imperative that disconnections are done on a daily basis, meters are checked for bridging and the defaulters be brought to book. This is however only possible if resources, including vehicles for the electrical department are operational and staff is allocated to do the disconnections and inspections. A campaign must also be undertaken to publicise the project, and sometimes to name and shame those found not to be paying when they do have the means to pay. A service provider has been appointed to install smart metering for electricity as well as the managing of the reticulation to ensure that losses are reduced.

Payment of Creditors 8

Creditors that were not older than 60 days were paid in the reporting month. This was as a result of sufficient revenue raised as well as the fact that expenditures were reduced to a minimum. It should further be noted that unless our collection rate is sustained above 108%, it will be difficult for the municipality to repay creditors outstanding for a period longer than 90 days promptly.

The current account for Eskom for the second quarter ending 31st December 2014 was R 66 million, the municipality was only able to pay R 39 million on the Eskom account for the second quarter. A service provider has been appointed to install smart metering for electricity as well as the managing of the reticulation to ensure that losses are reduced and same will be on site during January 2015.

PART 2: NON-FINANCIAL PERFORMANCE ASSESSMENT

This performance report is for the first Semester of the financial year period 1 July to 31 December 2014. The report provides an interpretation and assessment of the indicated analyses by the Accounting Officer; including subsequent recommendations and actions envisaged to improve the Municipality's planned service delivery and budget performance for the remainder of the financial year.

BACKGROUND

Performance Management is done in terms of the Performance Management Policy which was approved by Council on 04 June 2013. The Performance Management System is still a manual system that uses the approved Service Delivery Budget and Implementation Plan (SDBIP) as its basis. The SDBIP is a layered plan comprising a Top Layer SDBIP and Departmental SDBIPs.

The SDBIP as approved by the Executive Mayor on 25 June 2014, comprises quarterly high level non-financial service delivery targets as well as financial projections for revenue collection (cash flow) as well as operational and capital expenditure.

Performance reporting on the top layer SDBIP is done to the Mayoral Committee, Performance Audit Committee, and Council on a quarterly, half yearly (Mid-year Budget and Performance Assessment Report) and annual basis (Annual Report).



Any amendments to the Top Layer SDBIP must be approved by Council following the submission of the Mid-year Budget and Performance Assessment Report and the approval of the adjustment budget.

DISCUSSIONS

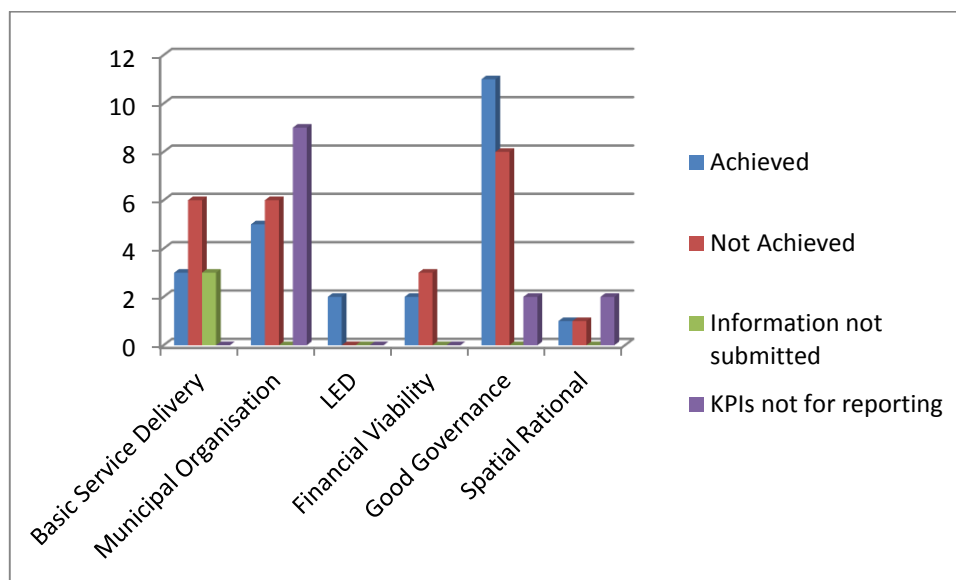
This report is based on the Top Layer SDBIP and is comprised of a summary of the overall performance for the first semester period of 1 July to 31 December 2014. This SDBIP report is done in line with the National Key Performance Areas (KPA's) for Local Government which are:

- Basic service delivery
- Municipal transformation and organisational development
- Local economic development
- Municipal financial management and viability
- Good governance and public participation
- Spatial rational

The following is a breakdown of the 1st semester performance per Key Performance Area:

TOTAL KPIS (64)	KEY PERFORMANCE AREA	ACHIEVED	NOT ACHIEVED	INFORMATION NOT SUBMITTED	NOT FOR REPORTING IN 1 st SEMESTER
LEGEND				INS	N/A
12	Basic Service Delivery	3	6	3	0
20	Municipal Organisation and Organisational Development	5	6	0	9
2	LED	2	0	0	0
5	Municipal Financial Viability and Management	2	3	0	0
21	Good Governance	11	8	0	2
4	Spatial Rational	1	1	0	2
TOTALS		24	24	3	13

The graph below depicts the number of targets achieved, relevant for reporting for the 1st semester, looking at the overall achievement as at the end of 1st semester. Of the total of 64 annual targets, 13 were not applicable for reporting in this quarter. This only explains that for the specific quarter, there was no set quarterly target. It does not mean any removal of a whole of part of a KPI. Thus of the total of 51 targets, as at the end of the 1st semester, 24 out of 51 targets were achieved, which translates to only 47% of targets achieved by the end of the semester. Explanations are provided for all targets not achieved and remedial action to be taken to ensure that such targets are met.



Graph: 1st Semester SDBIP Implementation Performance Report

Attached to this report as **Annexure “B”** is the report on the implementation of the 2014/2015 SDBIP for the 1st Semester of 1 July to 31 December 2014.

QUARTERLY PERFORMANCE REVIEWS

In line with the PMS Policy as adopted and section 28 of the Municipal Performance Regulations for Municipal Managers and managers directly accountable to Municipal Managers, 2006, the Regulations provides for the quarterly review of performance. The conducting of quarterly performance reviews is also contained in the annual performance agreements of the senior managers.

The objective of the performance review sessions is to:

- Determine the level of service delivery implementation based on the approved SDBIP;
- Report based on the SDBIP for improved accountability;
- Identify areas of under achievement, remedial action to be taken and to highlight challenges faced;
- Ensure continuous interaction at management level.
- Support Council oversight on administration
- Where necessary / possible, reward outstanding performance and punish non-performance (consequence management).

Performance reviews took place as follows:

DEPARTMENT	DATE OF PERFORMANCE REVIEW
Community Services and Safety	17 November 2014
Corporate Services	3 December 2014
Development and Planning	22 December 2014
Technical Services	22 December 2014
Budget and Treasury	22 December 2014

The following are key observations and recommendations made during the performance review sessions:

- (1) All reporting must be informed by weekly and monthly plans linked to quarterly targets in order to ensure that reporting is done based on clear plans; These must be submitted monthly.
- (2) Quarterly reports must contain an executive summary (narrative) per department based on the strategic goals. The environment under which the Department operates and the reflection on why the department exists, need to be covered;
- (3) Executive Managers must also reflect quarterly on the following:
 - (a) Departmental financial management;
 - (b) Contract management;
 - (c) Risk management;
 - (d) Labour relations related matters;
 - (e) Areas of continuous systems improvement;
- (4) Continuous interaction between Executive Managers, PMS and the Internal Audit unit must be ongoing during performance audits to ensure that any challenges can be immediately addressed;
- (5) Quarterly management meetings must be held to deal with performance information, ideally before the report is submitted to the Audit Committee and Mayoral Committee;
- (6) The role of Secretaries must be strengthened in the consolidation of monthly and quarterly departmental information in compiling the POEs;
- (7) Subsequent to the midyear assessment and adjustment budget, certain targets may have to be revised and or improved on to be SMART where after same must be approved by Council;
- (8) Executive Managers must also cascade performance review to the lower levels; (Individual Managers and Teams)

CONCLUSION

For the quarter under review, challenges were experienced with the timely submission of performance information to ensure a complete audit of performance information. This was mainly due to a number of officials being on leave shortly before and during the time when the report submissions were due as well as vacancies of key positions such as Executive Manager: Technical Services and Secretary to the Executive Manager Technical Services.

It is critical that there is always continuous interaction with Managers to deal with any discrepancies or uncertainties identified once reports are submitted. This must remain an ongoing process to continuously improve the quality and content of both the performance information reports as well as the mode of information verification.

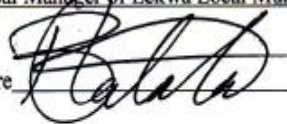
Quality Certificates

I Linda Bernard Tshabalala, Municipal Manager of Lekwa Local Municipality, hereby certify that the Mid-Year Assessments Report and the supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act.

Print Name Linda Bernard Tshabalala

Municipal Manager of Lekwa Local Municipality MP305

Signature

A handwritten signature in black ink, appearing to read 'Linda Bernard Tshabalala', written over a horizontal line.

Date 22 January 2015

COUNCIL RESOLUTION

- (1) That the report of the Executive Mayor (Municipal Manager) regarding the mid-year budget and performance assessment report for the Semester ending 31stDecember 2014 BE NOTED including the following:
 - (a) From the mid-year performance assessment it is clear that most of the departments are currently operating at a loss;
 - (b) Certain departments are non-revenue generating services and as result these losses are either subsidised through equitable shares or from the revenue raised from services charges.
- (2) That the 2014-15 Approved budget BE REVISED through an adjustment budget.
- (3) That the 2014-15 Adjustment budget BE TABLED in council not later than the 28 February 2015.
- (4) That on each and every meeting/ Consultation, the community BE EDUCATED about the payment of services by Councillors.
- (5) That the program of Smart Meters BE FAST-TRACK as a mechanism to improve collection rate.
- (6) That electricity funds BE RING-FENCED to be paid over to Eskom