

ITEM

PERFORMANCE ASSESSMENT: MID-YEAR REPORT: PERIOD JULY TO DECEMBER 2009

PURPOSE

To report to the Executive Mayor on the Performance Assessment of the municipality for the period 1 July 2009 – 31 December 2009, mid-year report.

BACKGROUND

In accordance with Section 72 of the Municipal Finance Act, Act 56 of 2002, 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 delivery 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 an assessment to –
 - (i) The mayor of the municipality;
 - (ii) The National treasury; and
 - (iii) The relevant provincial treasury.

Furthermore the accounting officer must –

- 3(a) make recommendation as to whether an adjustment budget is necessary; and
- (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary

DISCUSSION

1. FINANCIAL MONTHLY STATEMENTS (SECTION 72) FOR MID-YEAR ENDING DECEMBER 2009

To submit to council the mid-year report for the six months ending December 2008 of the Department finance for information as required in terms of Section 28, 72 and section 54(1) of the Municipal Finance Management Act 2003 (Act No 56 of 2003).

Expenditure by Vote

<u>Operating Expenditure by Vote</u>	<u>Actual 6 Months</u>	<u>Approved Budget</u>	<u>Percentage for 6 Months</u>	<u>Revised Income and Expenditure</u>	<u>Proposed Budget Adjustments</u>	<u>Percentage Adjustment</u>
Salaries and Allowances	97 813 642	187 860 081	52.07%	195 627 284	7 767 203	4.13%
Remuneration Council	6 769 497	12 219 692	55.40%	13 538 994	1 319 302	10.80%
General Expenditure						
Bulk Electricity						
Purchases	41 378 159	82 405 341	50.21%	82 756 318	350 977	0.43%
Bulk Water Purchases	53 551 042	116 404 999	46.00%	107 102 084	-9 302 915	-7.99%
Other General Expenses	35 858 903	57 834 768	62.00%	71 717 804	13 883 036	24.00%
Repairs and						
Maintenance	9 627 743	19 188 168	50.18%	19 255 485	67 317	0.35%
Transfer Depreciation	8 000 000	12 960 000	61.73%	16 000 000	3 040 000	23.46%
Contracted Services	14 496 964	33 328 514	43.50%	28 993 929	-4 334 585	-13.01%
Financial Charges	13 428 114	26 856 228	50.00%	26 856 228	0	0.00%
Capital Expenditure	3 918 967	12 021 237	32.60%	7 837 934	-4 183 303	-34.80%
Operating Grants ex						
Grants	10 157 813	13 282 790	76.47%	20 315 626	7 032 836	52.95%
Transfer Reserves	26 950 340	59 180 358	45.54%	53 900 680	-5 279 678	-8.92%
Total	321 951 184	633 542 176	48.25%	643 902 366	10 360 190	1.64%

1.1 Operating Expenditure

1.1.1 Salaries

Council had spent R97 813 642 for the six months under review. This is an overspending of 2.07%. The overspending is as a result of overtime in the department of Safety and Security that is overspent. In the 2009/2010 budget council did not provide for the expenses for the clinics as it is not the competency of council. At this stage the clinic staff is still paid by council and needs to be provided for by council. This must be dealt with as a matter of urgency. This has resulted in that Council will have to adjust the salaries budget for 2009/2010.

1.1.2 Councilors Remuneration

Council has spent R6 769 497 for the six months under review. This represents an over spending of 5.40%.The overspending is as a result of the two additional

portfolios that was established in the 2009/2010 financial year. The vote needs to be corrected in the 2009/2010 adjustment budget.

1.1.3 Bulk Purchases: Electricity

Council will over spend on this vote by 0.21%. the small overspending needs to be adjusted in the 2009/2010 adjustment budget

1.1.4 Bulk Purchases: Water

Council will under spend on Water purchases by 4.00%. Since council had billed the mines for water usage of water, supplied to the mines had reduced substantially with special reference to Deelkraal. Water usages of domestic consumers are within the proposed budget.

1.1.5 General Expenses: Other

Council had over spend this vote by 12.00%. Their are various reasons for the over spending. The following votes are substantially overspent: Legal fees and Entertainment Council General. Council appointed a service provider in Safety and Security to assist with road safety which was not provided for in the 2009/2010 budget. This has resulted in that a substantial adjustment needs to be approved by Council.

1.1.6 Repairs and Maintenance

Council's repairs and Maintenance budget is on track and within the budget approved by council.

1.1.7 Depreciation

Council is busy implementing GRAP 17 the statement on infrastructure assets. Additional depreciation must be provided for.

1.1.8 Contracted Services

The under spending refers to the lease costs for Rentworks that was budgeted under this vote. Council converted leases to the new Grap Statement and therefore the expenses must be expended as Finance charges and Depreciation. During the Adjustment budget process the necessary adjustments must be done.

1.1.9 Financial Charges

This budget is line as was provided for.

1.1.10 Capital Expenditure Out of Revenue

There is an under spending of 17.40% on this vote. With the pressure on the budget council will have to cut back on capital expenditure out of income

1.1.11 Transfer To Reserves (Provision for Bad Debt)

Council's average payment levels for the past six months were 79.86%. Council budgeted for a payment level of 83% for the financial year. The past years results have shown that the payment levels increase in the later part of the year. The appointment of the debt collectors did not shown the results as was anticipated. The biggest concern is the non - payment by Blyvooruitzicht mine on a portion of their water account. Despite the above taken into account the history on payment of services in the latter part of the financial year the provision can be reduced by R5 Million.

1.1.12 Total Expenditure

Council had spent R321 951 184 for the past six months, which is 1.75% below that was budgeted for. Certain adjustments will have to be done during the Adjustment Budget process. The detail was discussed above.

<u>Revenue by source</u>						
<u>Operating Revenue by Source</u>	<u>Actual 6 Months</u>	<u>Approved Budget</u>	<u>Percentage for 6 Months</u>	<u>Revised Income and Expenditure</u>	<u>Proposed Budget Adjustments</u>	<u>Percentage Adjustment</u>
Property rates	43 115 417	82 019 067	52.57%	86 230 834	4 211 767	5.14%
Service charges - electricity revenue from tariff billings	76 957 855	147 457 983	52.19%	153 915 710	6 457 727	4.38%
Service charges - water revenue from tariff billings	86 759 146	185 729 805	46.71%	173 518 292	-12 211 513	-6.57%
Service charges - sanitation revenue from tariff billings	9 215 360	18 489 329	49.84%	18 430 720	-58 609	-0.32%
Service charges - refuse removal from tariff billings	12 232 954	24 764 511	49.40%	24 465 907	-298 604	-1.21%
Service charges - other Rental of facilities and equipment	519 147	868 002	59.81%	1 038 294	170 292	19.62%
Interest earned - external investments	7 750 000	7 000 000	110.71%	15 500 000	8 500 000	121.43%
Interest earned - outstanding debtors	3 325 384	24 256 003	13.71%	6 650 768	-17 605 235	-72.58%
Traffic and Licensing Government grants & subsidies	10 389 764	10 229 420	101.57%	20 779 528	10 550 108	103.13%
Public contributions & donated or contributed PPE	65 792 904	118 831 796	55.37%	131 585 809	12 754 013	10.73%
Gains on Sale of Assets	0				0	
Operating Income	1 750 000	3 500 000	50.00%	3 500 000	0	0.00%
Operating Income	4 143 252	10 396 259	39.85%	8 286 504	-2 109 755	-20.29%
Total	321 951 183	633 542 175	50.82%	643 902 366	10 360 191	1.64%

1.2. Income

1.2.1 Property Rates

Council had performed for the six months under review above as was as planned. The valuer had completed task regarding the objections. The objections above 10% were submitted to the appeal board, and concluded. It is envisaged hat council will receive additional R4 211 767 for the financial year

1.2.2 Service Charges: Electricity

Council had over performed with the sale of electricity for the past six months. It is envisage that council will bill R6 457 727 more for the financial year. The substantial increase in electricity tariffs by Eskom has resulted in that consumers had used less electricity in the previous financial year. As with all things the consumers had accepted the higher tariffs and are using electricity as in the past. It

is envisaged that council will receive additional R6 457 727 for the financial year. This will have to be rectified during the Adjustment Budget.

1.2.3 Service Charges: Water

Council had under performed in this vote by 3.29%. Since council had billed the mines for water usage of water, supplied to the mines had reduced substantially. Water usages of domestic consumers are within the proposed budget.

The underperformance is in line with the purchase of Bulk Water that is also down. This will have to be rectified during the Adjustment Budget.

1.2.4 Service Charges: Sewerage Charges

Sewerage sales are directly linked to water usage. Council has exceeded its budget by 3.09% for the six months under review. This is well in line with council's budget for the financial year.

1.2.5 Service Charges: Refuse removal

The performance of this vote is in line with council's budget. Council had levied 0.16% less than was planned.

1.2.6 Rental of Facilities and Equipment

The performance of this vote is in line with council's budget. Council had levied 0.60% less than was planned.

1.2.7 Interest Earned: External Investments

Council will exceed its budget by 60.71% for the year. This can be attributed to higher interest rates and substantial investment made. The funds are for the installation of bulk services in Khutsong 1, 2 and 3.

1.2.8 Interest Earned: Outstanding Debtors

The substantial under performance of this vote is as a result of the debt handed over to debt collectors. This is a substantial under performance and needs to be adjusted

1.2.9 Fines

The over performance is as a result of the change over from North West province to Gauteng. North West had required that the income derived from licensing be paid over to them directly and had refunded council the 25%. Gauteng requested that the income must be recorded in councils books and the 75% be paid over to them. The collection of fines remains a major concern to council. The department is fully staffed but the income for fines had decreased. This must be investigated and rectified during the Adjustment budget process.

1.2.10 Government Grants and Subsidies

Council had received the subsidies as promulgated in the Division of Revenue Act. The expenses occurred for the clinics must be claimed from the Department of Health. The relevant department must ensure that the necessary agreements are in place.

1.2.11 Gains on Sale of Assets

Council must dispose of its redundant and obsolete stock in the financial year.

1.2.12 Operating Income.

The underperformance of this vote is as a result incorrect budgeting by the relevant departments. This must be rectified during the Adjustment budget process.

1.2.13 Total Income

Council over performed by 0.82% for the six months.

1.3 Debtors

Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total -
Debtors Age Analysis By Income Source									
Water Tariffs	4 159 710	3 594 982	2 299 220	1 811 037	1 603 455	1 424 990	1 367 316	68 028 118	84 288 828
Electricity Tariffs	-1 325 382	7 536 358	1 799 213	2 354 218	1 106 937	583 967	501 511	14 360 879	26 917 701
Rates (Property Rates)	-10 670 554	1 635 176	1 615 371	1 372 015	1 642 792	1 350 631	1 321 453	80 585 968	78 852 852
Sewerage / Sanitation Tariffs	1 497 279	1 392 413	1 102 873	686 120	604 446	537 081	519 940	30 666 311	37 006 463
Refuse Removal Tariffs	1 454 592	1 649 625	1 351 977	1 010 799	917 699	809 543	771 959	48 283 995	56 250 189
Housing (Rental Income)	49 719	41 334	14 605	4 550	2 610	2 969	1 404	426 352	543 543
Other	-13 180 749	5 829 808	4 769 504	4 181 020	10 210 023	6 329 689	5 903 829	132 947 134	156 990 258
Total By Income Source	-18 015 385	21 679 696	12 952 763	11 419 759	16 087 962	11 038 870	10 387 412	375 298 757	440 849 834
Debtors Age Analysis By Customer Group									
Government	-4 370 845	709 664	817 675	536 183	6 020 980	2 137 917	341 158	1 972 463	8 165 195
Business	396 712	1 195 665	302 474	324 047	157 105	456 327	118 222	1 747 587	4 698 139
Households	-11 547 606	16 518 752	10 630 874	9 708 663	9 194 658	7 878 737	9 424 793	359 716 847	411 525 718
Other	-2 493 646	3 255 615	1 201 740	850 866	715 219	565 889	503 239	11 861 860	16 460 782
Total By Customer Group	-18 015 385	21 679 696	12 952 763	11 419 759	16 087 962	11 038 870	10 387 412	375 298 757	440 849 834

Debtor's analysis ending 31 December 2009

Increase in Debtors for the Six Months

R32 389 041

Payment Levels for the six months ending December 2009

DETAILED PAYMENT LEVELS

DATE: Up to December 2009

PERCENTAGE PER SERVICE GROUP

<u>Service group</u>	<u>Billed</u>	<u>Received</u>	<u>Collection rate</u>
Property tax	R 37 479 999.76	R 32 903 846.58	87.79%
Electricity	R 77 010 040.11	R 67 574 245.96	87.75%
Water	R 77 458 350.54	R 58 346 537.92	75.33%
Sewage	R 8 953 475.00	R 5 096 339.93	56.92%
Refuse	R 12 233 739.91	R 6 288 221.77	51.40%
Total	R 213 135 605.32	R 170 209 192.16	79.86%

Council had budgeted for an average payment level of 83% for the financial year. The past years performance had proved that the payment levels increase in the later part of the year.

Council had appointed three debt collecting companies. They had not performed as was envisaged. It was required by the debt collectors to open offices in Merafong. This did not materialize and because of non performance council is in the process to cancel the contracts. It will be better to establish an in-house debt collection department.

The biggest concern is the non - payment by Blyvooruitzicht mine on a portion of their water account. Despite the above, taken into account the history on payment of services in the latter part of the financial year the provision can be reduced by R5 Million.

STATISTICS PER SURBURB

<u>District group</u>	<u>Billed</u>	<u>Received</u>	<u>Collection rate</u>
Carletonville	R 130 499 949.83	R 123 574 217.11	94.69%
Fochville	R 31 334 489.66	R 26 852 743.58	85.70%
Khutsong	R 8 074 307.18	R 1 027 908.71	12.73%
Rest	R 791 273.81	R 96 806.10	12.23%
Kokosi	R 10 034 484.74	R 1 072 527.46	10.69%
Khutsong South	R 5 215 086.49	R 266 918.24	5.12%
Wedela	R 9 734 848.59	R 4 670 896.44	47.98%
Blybank	R 1 611 533.43	R 905 279.68	56.18%
Wolverdam	R 3 876 327.91	R 2 470 569.24	63.73%
Farms	R 11 963 303.68	R 9 271 325.60	77.50%
<u>Total</u>	<u>R 213 135 605.32</u>	<u>R 170 209 192.16</u>	<u>79.86%</u>

The biggest challenge still remains the low level of payments in Khutsong and Kokosi.

1.4. Capital expenditure

The IDP performance report will depict the performance by departments with reference to the execution of Capital projects.

2. **THE MUNICIPALITY'S SERVICE DELIVERY PERFORMANCE DURING THE FIRST HALF OF THE FINANCIAL YEAR (MID-YEAR REPORT ENDING DECEMBER 2008)**

Section 72 of the MFMA (Act of 56 of 2003) requires municipalities to prepare for each financial year and mid-year report on the performance of the municipalities. The following are draft guidelines on the reporting format/template. These are the minimum requirements and the QPR reporting system has been customized to ensure compliance with the requirements:

- Relevant priorities for which a municipality is reporting
- The report must cover all agreed priority objectives

- The report must cover all agreed indicators and targets relevant to the period
- The report must cover measurements of current performance over the period for which it is reporting
- The report must specify when the measurements were done and the source of measurements
- The report must reflect on whether agreed targets have been met
- The report must be simple, accessible and useful to the intended reader and contain only necessary information

Attached as **Annexure A, B and C** is the Performance Management System: Mid-year reports respectively:

- (i) IDP Projects Performance Report
- (ii) Performance on National General KPI's
- (iii) Organisational Performance Objectives in accordance with departmental targets

3.1 **PROBLEMS IDENTIFIED IN ANNUAL REPORT 08/09 – AUDIT REPORT**

In terms of Section 72(a)(iii) of the MFMA, the Accounting Officer must also report on:

- “(iii) The past year’s annual report, and progress on resolving problems identified in the annual report.

The annual report will be tabled to Council on 29 January 2010 in accordance with the legal requirements. The problems identified by the Auditor General as captured in the annual report and the responses thereof, are the following:

Basis for qualified opinion

Property, plant and equipment

The Standard of Generally Recognized Accounting Practice, GRAP 17 *Property, plant and equipment*, paragraph 38 and 39 states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses or at a revalued amount less accumulated depreciation and accumulated impairment losses. Contrary to accounting policy note 2 and note 8 to the financial statements, the municipality did not succeed in completing the valuation process within the allowable period. I was unable to practicably quantify the misstatements and could not perform alternative procedures due to a lack of sufficient appropriate supporting documents which will only be available on completion of the valuation exercise. Consequently I was unable to satisfy myself as to the existence, rights and obligations, completeness and valuation and allocation of property, plant and equipment of R335 021 000 included in the statement of financial position

Response:

Merafong converted to GAMAP during the 2004/2005 financial year. The Auditor-General in Gauteng advised us that we must disclose a note in the notes of the financial statements that council will make use of the three years exemption period.

We were three municipalities in the West Rand District that converted together. All three made use of a note but disclosed Property Plant and Equipment although they were not identified and valued as required by GAMAP 17. The amounts that were disclosed were the values that were disclosed in the asset register of the IMFO financial statements in correct categories and classifications.

This was accepted by the office of the Auditor-General in Gauteng.

During the 2005/2006 financial year Merafong Council was transferred to North-West Province. The Auditor-General in Potchefstroom took over the audit of Council. According to them we were only allowed to disclose PPE as and when we have identified and verified it in accordance to GAMAP 17. Their interpretation differs from the Auditor-General in Gauteng. During the 2005/2006 financial year Merafong Council was transferred to North-West Province.

They have advised council to apply to National Treasury requesting that council can exclude those categories of Property, Plant and Equipment that have not been verified according to GAMAP 17 and to transfer them to appropriation account. They will then accept it and we can then make use of the exemption period.

Council secured an appointment with the Accountant-General. Various meetings were held where the issue was discussed in detail. Unfortunately he could not assist council. He was of opinion that Merafong is not the only municipality that faces the same problem and he was not prepared to create a precedent.

Council was not in a position to verify and value Infrastructure Assets and Land and Buildings at this stage. Council could only in the 2008/2009 financial year's budget secure funds to execute this project. It will cost council in excess of 6 Million and will take two years to perform.

Council went out on tender during 2008/2009 financial year. A service provider was appointed to commence with the compilation of an infrastructure asset register. The project will be completed during the 2009/2010 financial year.

4. MUNICIPAL ADJUSTMENT BUDGETS

The MFMA section 29 reads,

- "28.(1) A municipality may revise an approved annual budget through an adjustments budget.
- (2) An adjustments budget –

- (a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - (b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - (c) may, within a prescribed framework, authorize unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
 - (d) may authorize the utilization of projected savings in one vote towards spending under another vote;
 - (e) may authorize the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
 - (f) may correct any errors in the annual budget; and
 - (g) may provide for any other expenditure within a prescribed framework.
- (3) An adjustments budget must be in a prescribed form.
- (4) Only the mayor may table an adjustments budget in the municipal council, but an adjustment budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.
- (5) When an adjustments budget is tabled, it must be accompanied by –
- (a) an explanation how the adjustments budget affects the annual budget;
 - (b) a motivation of any material changes to the annual budget;
 - (c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
 - (d) any other supporting documentation that may be prescribed.
- (6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- (7) Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.”

4.2 Adjustment budget 2009/2010– Motivations

4.2.1 Water sales to the mines are substantially down as was budgeted for.

4.2.2 The implementation of the Grap 17 standard on Infrastructure Assets will result in a new approach on council's budget.

4.2.3 The omission of the expenditure of the clinics in the 2009/2010 budget.

RECOMMENDATIONS

1. That cognizance be taken of the financial achievements for the past six months ended 31 December 2009 in accordance with Section 71 of the MFMA.
2. That the revised projection for revenue and expenditure be approved.
3. That it be approved that an adjustment budget be drafted for the 09/10 financial year in line with the performance achieved and needs identified by the respective departments as indicated in the mid-year performance report.
4. That the Performance Management System: Mid-year report pertaining to:
 - (i) IDP Projects Performance Report
 - (ii) Performance on National General KPI's
 - (iii) Organisational Performance Objectives in accordance with departmental targets be approved.

A. ED: ECONOMIC DEVELOPMENT & PLANNING

Approved as recommended	
Not approved	
Referred back	

C.W.A. NIEUWOUDT

DATE

B. CHIEF FINANCIAL OFFICER

Approved as recommended	
Not approved	
Referred back	

M.G. WIENEKUS

DATE

C. ACTING MUNICIPAL MANAGER

Approved as recommended	
Not approved	
Referred back	

E.M. LESEANE

DATE

D. PORTFOLIO HEAD

Approved as recommended	
Not approved	
Referred back	

CLLR. S.M. RAPHALANE

DATE

E. EXECUTIVE MAYOR

Approved as recommended	
Not approved	
Referred back	

CLLR. D.P. MOLOKWANE

DATE