

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Audit Committee, Section 80, Mayoral Committee & Council
DIVISION REQUESTING THE SUBMISSION : Finance
TITLE OF THE SUBMISSION : Financial report for the quarter ending 30 September 2014 (CFO)

1. SOLUTION REQUIRED

Strategy Endorsement	
Commercial Options	
Approval	
Information	X

2. BACKGROUND REASON FOR REQUEST

In terms of the section 52(d) of the Municipal Finance Management Act (Act No.58 of 2003) (MFMA), the mayor of a municipality must within 30 days of the end of each quarter submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.

This report is in terms of the above-mentioned section of the MFMA and following herewith are the highlights for the quarter ended 30 September 2014:

3. OVERVIEW OF FINANCIAL PERFORMANCE

3.1 Revenue:

The year to date revenue, including property rates is 5% below the pro rata budget (pro rata budget R 136m vs. actual R129m) due to the following main contributing factors:

- Water revenue is 6% below budget, as a result of lower consumption in affluent areas mainly due to consumers managing their costs in relation to the cost of living.
- Rental of facilities and equipment is 76% below the pro rata budget due to rentals not being cost reflective and the lack of a complete rental register. We are in the process of reviewing all rental properties of the municipality including the rental such that we can realise this revenue.
- Operational grant revenue is 34% below the pro rata budget this is due to grants funds being received according to the dates indicated on the payment schedules.

3.2 Expenditure:

The operating expenditure to date is R85.1m which is 37% below the pro rata budget of R136m. The underspending on the net operating expenditure versus pro-rata budget is due to debt impairment not calculated on a year to date basis.

The estimated debt impairment and depreciation for the quarter under review is R R12,7 million and R8,5 million respectively.

Therefore the municipality has an estimated surplus of R22.9 million for the 1st quarter of the financial year.

GT423 Lesedi - Financial Performance (revenue and expenditure) - Quarter 1

Description	2012/13	Budget Year 2014/15				
	Audited Outcome	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance
R thousands						%
Revenue By Source						
Property rates	58 417	73 200	19 857	18 300	1 557	9%
Property rates - penalties & collection charges	-	-	-	-	-	
Service charges - electricity revenue	196 217	240 834	61 150	60 208	941	2%
Service charges - water revenue	59 151	73 093	17 201	18 273	(1 073)	-6%
Service charges - sanitation revenue	16 495	21 553	5 026	5 388	(362)	-7%
Service charges - refuse revenue	22 103	25 565	6 281	6 391	(110)	-2%
Service charges - other	3 360	254	35	64	(28)	-45%
Rental of facilities and equipment	2 361	7 724	464	1 931	(1 467)	-76%
Interest earned - external investments	703	1 272	132	318	(186)	-58%
Interest earned - outstanding debtors	4 657	2 488	2 244	622	1 622	261%
Dividends received	-	-	-	-	-	
Fines	168	2 500	24	625	(601)	-96%
Licences and permits	44	91	0	23	(22)	-99%
Agency services	-	-	-	-	-	
Transfers recognised - operational	71 432	91 364	15 006	22 841	(7 835)	-34%
Other revenue	194	6 231	1 862	1 558	304	20%
Gains on disposal of PPE	-	-	-	(0)	0	-100%
Total Revenue (excluding capital transfers and contributions)	435 303	546 168	129 282	136 542	(7 260)	-5%
Expenditure By Type						
Employee related costs	92 223	147 509	11 012	36 877	(25 865)	-70%
Remuneration of councillors	7 345	8 185	-	2 046	(2 046)	-100%
Debt impairment	66 158	51 018	-	12 755	(12 755)	-100%
Depreciation & asset impairment	33 431	34 054	-	8 514	(8 514)	-100%
Finance charges	6 784	6 084	1 844	1 521	323	21%
Bulk purchases	189 258	207 281	47 706	51 820	(4 114)	-8%
Other materials	20 884	18 557	4 859	4 639	220	5%
Contracted services	667	611	107	153	(46)	-30%
Transfers and grants	-	-	-	-	-	
Other expenditure	53 947	70 910	19 617	17 728	1 889	11%
Loss on disposal of PPE	-	-	-	-	-	
Total Expenditure	470 696	544 210	85 145	136 052	(50 908)	-37%
Surplus/(Deficit)	(35 393)	1 958	44 137	490	43 648	8916%
Transfers recognised - capital	19 070	32 037	9 846	8 009	1 837	23%
Contributions recognised - capital	-	-	-	-	-	
Contributed assets	-	-	-	-	-	

Surplus/(Deficit) after capital transfers & contributions	(16 323)	33 995	53 983	8 499		
Taxation	-	-	-	-	-	
Surplus/(Deficit) after taxation	(16 323)	33 995	53 983	8 499		
Attributable to minorities	-	-	-	-		
Surplus/(Deficit) attributable to municipality	(16 323)	33 995	53 983	8 499		
Share of surplus/ (deficit) of associate	-	-	-	-		
Surplus/ (Deficit) for the year	(16 323)	33 995	53 983	8 499		

4. OVERVIEW OF FINANCIAL POSITION

4.1 Current Assets

The net cashbook balance at the end of the quarter under review was a balance of R-26.1m. The negative cash balance is due to the drop in the revenue collection which emanates from the SA Post Office strike which is ongoing

The gross consumer debtors amount at 30 September is R364,660m (Increase of R24.2m from 30 June 2014). This is an indication that the municipality is still experiencing debt collection challenges exacerbated by the SA Post Office strike. Details on collection below:

Outstanding Debtors

Set out below is a summary of outstanding debtors' age analysis by income source as well as customer group for the quarter ended 30 September 2014.

GT423 Lesedi - Aged Debtors - Quarter 1 2014

Description	Budget Year 2014/15								Total
	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	
R thousands									
Debtors Age Analysis By Revenue Source									
Rates	6 296	2 458	1 906	988	1 046	798	4 089	23 748	41 329
Electricity	16 670	6 080	4 305	3 085	2 635	2 500	13 609	50 699	99 582
Water	6 656	3 734	3 546	2 617	2 936	2 546	15 837	67 661	105 532
Sewerage / Sanitation	1 783	087	986	795	774	762	4 150	21 256	31 592
Refuse Removal	2 154	1 547	1 466	1 211	1 192	1 189	6 562	37 682	53 003
Housing (Rental Revenue)									-
Other	3 474	1 721	360	650	423	309	2 519	24 168	33 623
Total By Revenue Source	37 033	16 626	12 569	9 345	9 006	8 104	46 765	225 213	364 660
Debtors Age Analysis By Customer Category									
Government	2 822	1 803	1 600	511	333	311	1 796	5 316	14 492
Business	14 327	450	739	374	267	167	465	296	19 085
Households	19 083	097	057	301	326	522	213	220	328 819
Other	801	276	172	159	80	105	291	381	2 265
Total By Customer Category	37 033	16 626	12 569	9 345	9 006	8 104	46 765	225 213	364 660

Collection

Cash collected in September 2014 is for the billing of the month of August 2014; Cash collection in August 2014 is for the billing of July 2014 and cash collected in July 2014 is for the billing of June 2014.

The table below has an average collection rate of 79% for the quarter. The collection rate for the quarter is below the budgeted target of 80%. The municipality has a substantial amount of old debt and for this reason, if the collection rate does not average at least 100%, then the municipality would not be collecting the old debt which impacts negatively on the liquidity.

Months	Billing (R)	Receipts (R)	Collection %
June	30,614,121		
July	37,373,849	26,265,552	86%
August	36,542,221	27,839,086	74%
September	35,574,352	28,395,810	78%
Total excl. June	109,490,422	82,500,448	

4.2 Current Liabilities

Current liabilities have decreased by R48,582 million to R31,431m from the last financial year (30 June 2014: R80,013m) The decrease is mainly equated to the overdraft facility which assisted the municipality to meet its operational expenditure.

Below is the creditors listing.

GT423 Lesedi - Aged Creditors - September 2014						
Description	Budget Year 2014/15					Total
	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	Over 1 Year	
R thousands						
Creditors Age Analysis By Customer Type						
Bulk Electricity	15 815					15 815
Bulk Water	7 661					7 661
PAYE deductions	1 301					1 301
VAT (output less input)	-					-
Pensions / Retirement deductions	1 211					1 211
Loan repayments	-					-
Trade Creditors	2 691					2 691
Auditor General	422					422
Other	2 330					2 330
Total By Customer Type	31 431	-	-	-	-	31 431

The current ratio at the end of the quarter is 1,04:1 which is below the norm of 2:1. This however indicates that even though the municipality can pay its short term liabilities, the gap between the current liabilities and current assets is narrow and could result in difficulties in the municipality being able to honor its debt within the legislated 30 days upon receipt of the invoice in the future. Credit control processes and monitoring of expenditure are on going in order to curb the situation.

Description	2012/13	Budget Year 2014/15			
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
R thousands					
<u>ASSETS</u>					
Current assets					
Cash	14 432	4 424	-	2	-
Call investment deposits	-	-	-	13 011	-
Consumer debtors	42 707	72 933	-	96 648	-
Other debtors	3 575	310	-	15 729	-
Current portion of long-term receivables	-	-	-	-	-
Inventory	3 977	3 980	-	4 093	-
Total current assets	64 691	81 646	-	129 484	-
Non current assets					
Long-term receivables	-	-	-	18 381	-
Investments	-	-	-	-	-
Investment property	422 811	417 625	-	267 249	-
Investments in Associate	-	-	-	-	-
Property, plant and equipment	522 479	542 970	-	533 271	-
Agricultural	-	-	-	-	-
Biological assets	-	-	-	-	-
Intangible assets	532	735	-	4 674	-
Other non-current assets	-	157	-	-	-
Total non current assets	945 821	961 486	-	823 575	-
TOTAL ASSETS	1 010 513	1 043 132	-	953 059	-
<u>LIABILITIES</u>					
Current liabilities					
Bank overdraft	-	-	-	39 177	-
Borrowing	2 596	-	-	-	-
Consumer deposits	7 452	7 526	-	7 849	-
Trade and other payables	87 572	40 516	-	69 200	-
Provisions	9 443	8 993	-	8 452	-
Total current liabilities	107 064	57 036	-	124 677	-
Non current liabilities					
Borrowing	67 881	65 063	-	67 881	-
Provisions	2 512	2 512	-	4 542	-
Total non current liabilities	70 393	67 575	-	72 422	-
TOTAL LIABILITIES	177 456	124 611	-	197 100	-
NET ASSETS	833 056	918 521	-	755 959	-
<u>COMMUNITY WEALTH/EQUITY</u>					
Accumulated Surplus/(Deficit)	833 056	918 521	-	755 959	-
Reserves	-	-	-	-	-
TOTAL COMMUNITY WEALTH/EQUITY	833 056	918 521	-	755 959	-

5. Grants spending:Quarter ending 30 September 2014

Grant funding	Allocated	Amount Received	Spent	Commitment	Unspent
Equitable share	71,665,000	28,367,000	28,367,000	0	0
MIG	25,037,000	18,500,000	18,499,847	0	153
FMG	1,450,0000	1,450,000	448,599	77,007	1,001,401
MSIG	934,000	934,000	5,896.00	93,493	928,104
INEP (Eskom)	498,000	0	0	0	0
INEP (Municipal)	7,000,000	0	0	0	0
EPWP COGTA	500,000	500,000	8,328.00	26,250	473,750
EPWP NT	1,269,000	508,000	32,490	93,493	475,509
Alien Removal	1,430,000	0	0	0	0
Libraries (ES)	3,500,000	0	0	0	0
Libraries: arts& culture	1,020,000	0	0	0	0

MIG Funding Projects:

Lesedi Local Municipality received to date MIG funds to an amount of R 18,500,000. 99,9% of the funds received have been spent to date.

7. CASHFLOW STATEMENT FOR THE FOURTH QUARTER ENDED 30 September 2014

GT423 Lesedi - Cash Flow - Quarter 1 - 2014

Description	2012/13	Budget Year 2014/15					
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Ratepayers and other	350 304	388 157	31 668	88 049	97 039	(8 990)	-9%
Government - operating	72 983	87 096	2 484	35 229	21 774	13 455	62%
Government - capital	28 070	32 037	1 500	20 000	8 009	11 991	150%
Interest	5 720	3 760	104	252	940	(688)	-73%
Dividends	-	-	-	-	-	-	
Payments							
Suppliers and employees	(399 225)	(453 054)	(42 497)	(157 767)	(113 263)	44 504	-39%
Finance charges	(6 983)	(6 084)	-	-	(1 521)	(1 521)	100%
Transfers and Grants	-	-	-	-	-	-	
NET CASH FROM/(USED) OPERATING ACTIVITIES	50 870	51 912	(6 741)	(14 237)	12 978	(27 215)	-210%
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
Proceeds on disposal of PPE	2	-	-	65	-	65	0%
Decrease (Increase) in non-current debtors	-	-	-	-	-	-	
Decrease (increase) other non-current receivables	-	-	-	-	-	-	
Decrease (increase) in non-current investments	-	-	-	-	-	-	
Payments							
Capital assets	(36 520)	(45 654)	(8 188)	(20 083)	(7 609)	12 474	-164%
NET CASH FROM/(USED) INVESTING ACTIVITIES	(36 517)	(45 654)	(8 188)	(20 018)	(7 609)	12 409	-163%
CASH FLOWS FROM FINANCING ACTIVITIES							
Receipts							
Short term loans	-	-	-	-	-	-	0%
Borrowing long term/refinancing	-	-	-	-	-	-	
Increase (decrease) in consumer deposits	-	-	(106)	(159)	-	(159)	0%
Payments							
Repayment of borrowing	(6 512)	(2 818)	-	-	(704)	(704)	100%
NET CASH FROM/(USED) FINANCING ACTIVITIES	(6 512)	(2 818)	(106)	(159)	(704)	(546)	77%
NET INCREASE/ (DECREASE) IN CASH HELD	7 840	3 440	(15 035)	(34 413)	4 665		
Cash/cash equivalents at beginning:	6 592	984		8 248	984		
Cash/cash equivalents at month/year end:	14 432	4 424		(26 165)	5 648		

CONCLUSION

The monitoring of Revenue is being critically observed especially the collection levels and for this purpose attention is drawn to the full implementation of the debt recovery and credit control policy to ensure the financial viability of the municipality. Expenditure is also being monitored so that cost savings can be realized where possible to ensure that we can improve on the deficit incurred. Capital expenditure should be monitored especially grant funded capital expenditure as the level of expenditure is low, care should be taken to ensure funds are utilized efficiently in order to avoid rollovers.

9. LEGISLATIVE PROVISIONS

MFMA Section 52(d)

10. RECOMMENDATION

10.1 It is recommended that the quarterly financial report be noted.