

MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT REPORT



01 JULY 2015 – 31 DECEMBER 2015

## Contents

1. Purpose of the Mid-Year Report.....	4
2. Legislative Background .....	4
3. The State of the Economy at Glance .....	4
5. Budget Performance Analysis.....	5
5.1 Revenue.....	5
5.2 The Actual Performance against the forecast.....	5
5.3 Expenditure.....	6
5.4 Actual Performance Expenditure .....	6
6. Capital Expenditure Programme.....	6
6.1 Actual Capital Performance.....	7
6.2 Capital Programme .....	8
6.2.3 Staff Expenditure .....	11
7. Supply Chain Management.....	12
8. Public Private Partnerships (Off-Balance Sheet Projects and alternative funding projects).....	12
9. Debtors Analysis .....	13
10. Creditors, Borrowings and Finance Leases.....	13
11. Consideration of Key Ratios (Performance Indicators) .....	14
11.1 Borrowing to asset ratio .....	15
11.2 Gearing Ratio.....	15
11.3 Current Ratio.....	15
11.4 Electricity distribution losses.....	15
11.5 Water distribution losses.....	15
11.6 Debtors collection rate .....	15
12. Reasons for Material Variances.....	16

13. Grant Funding (Actual Receipts) .....	16
14. Institutional Performance Report as per the Service Delivery and Budget and Implementation Plan.....	17
15. Human Resources Development.....	20
16. Past Year's Annual Report (2014/15) and Progress on Resolving Problems Identified in the Annual Report.....	20
17. Recommendations of the Accounting Officer to the Executive Mayor .....	21

## **1. Purpose of the Mid-Year Report**

The purpose of this report is to comply with Section 52 (d) and Section 72 of the Municipal Finance Management Act 56 of 2003, and Section 33 of the Municipal Budget and Reporting Regulations as promulgated in the Government Gazette No 32, 141 of April 2009, which requires that municipality conduct an assessment of its performance which include financial and non-financial affairs and report to the key stakeholders.

## **2. Legislative Background**

Section 72 (1) (a) and (b) of the Municipal Finance Management Act, No 56 of 2003 states that the Accounting Officer of a municipality must by 25 January of each year assess the performance of the municipality during the first half of the financial year taking into account the monthly section 71 reports and service delivery performance. This report must be submitted to the Mayor, Provincial Treasury and National Treasury.

Based on this assessment the Accounting Officer must make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary.

The Mid-Year Report and supporting tables of Polokwane Municipality and its Entity has been prepared in accordance with the requirements of the Municipal Budget and Reporting Regulations and the Municipal Finance Management Act.

## **3. The State of the Economy at Glance**

In his speech in October 2015 during mid-term budget review, the Honourable Minister of Finance has emphasised on the state of the performance of South African economy and the state of the finances in government. He has indicated that there is need for profound and discipline fiscal spending across the entire sphere of governance. South African economy is currently facing serious negative growth and the economic outlook according to statistic South Africa and rating agencies is projected to grow at below 2%.The main challenge remain unemployment and increased dependency on social grants and high level of indigent population. However it must be emphasised that the government has invested more budgets in infrastructure development and more budget will be allocated in local government in order to accelerate the level of service delivery.

#### 4. Indigent Support

The total number of indigents beneficiaries is 11 092 as at 31<sup>st</sup> December 2015 and to date the municipality has written-off of R 8 841 762, 32 excluding monthly subsidies in rendering the service.

#### 5. Budget Performance Analysis

##### 5.1 Revenue

Description	2014/15	Budget Year 2015/16							
	Audit Outcome	Original Budget	Adjusted Budget	Monthly actual	Year ID actual	Year ID budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
<b>Financial Performance</b>									
Total Revenue (excluding capital transfers and contributions)	1 972 127	2 404 463	-	154 620	1 065 113	1 202 232	(137 118)	-11%	2 404 463
Total Expenditure	2 646 286	2 288 560	-	176 671	1 108 921	1 144 280	(35 359)	-3%	2 288 560
Surplus/(Deficit)	(674 159)	115 903	-	(22 051)	(43 808)	57 951	(101 760)	-176%	115 903
Transfers recognised - capital	555 235	466 288	-	88 890	324 698	233 144	91 554	39%	466 288
Contributions & Contributed assets	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) after capital transfers & contributions	(118 924)	582 191	-	66 839	280 890	291 095	(10 206)	-4%	582 191
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-
Surplus/ (Deficit) for the year	(118 924)	582 191	-	66 839	280 890	291 095	(10 206)	-4%	582 191

The municipality has budgeted a total revenue of R2 404 463 000 in 2015/16 financial year as compared against the original budget of R2 209 252 000 in 2014/15 financial year. The increase in revenue budget was attributed to general increase in tariffs. As at 31<sup>st</sup> December 2015, the municipality has reported actual revenue of R1 065 113 158.53 as compared to R 1 074 094 246.13 in 2014/15 financial year.

The municipality is currently collecting on average 88% while at the same time in December 2015 95% of the collection was realised. Council has put measures in place to ensure that collection of the debtors above 90 days are collected. The credit and debt collection companies were appointed to enforce credit control while at the same time smart metering solution is being prioritised as part of the security and protection of revenue.

##### 5.2 The Actual Performance against the forecast

The budgeted revenue will be realised at the end of the financial year. Only few revenue line items such as rental of facilities will be adjusted downwards. The actual performance against

the budgeted forecast will also be realised. The municipality applied for R188 million on conditional grants, of the total amount applied for only R28.5 million was approved as part of the roll over.

### **5.3 Expenditure**

The municipality has budgeted a total expenditure of R2 288 560 000 for the 2015/16 financial year as compared to R2 646 286 000 in the same period in 2014/15 financial year. The main contributor to the expenditure budget were employee costs, depreciation and impairment which form part of non-cash items, contracted services, bulk purchases, and other materials as well as general expenditure.

### **5.4 Actual Performance Expenditure**

As at 31<sup>st</sup> December 2015, the total expenditure was R1 108 921 329.10 as compared to the current year original budget, which represents 48%. Due to the effect of unrealistic revenue budget there might be a need to cut or reduce operating expenses during the adjustment budget.

In same intervening period in 2014/15, municipality has spent 44% of its operating expenditure budget as compared to its original budget of the same period. Stringent measures will be put in place to ensure that expenditure is not increasing at an exponential rate.

## **6. Capital Expenditure Programme**

The municipality has budgeted a capital budget of R 580 121 000 for the 2015/16 financial year as compared to R 518 749 000 in the 2014/15 financial year. The municipal capital is mainly funded by capital conditional grants from National Treasury as well as Capital Replacement Reserve (CRR). Eighty percent (80%) of the funding comes from the National Treasury.

## 6.1 Actual Capital Performance

Vote Description	Ref	Budget Year 2015/16							
		Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
<b>R thousands</b>	1								
<b>Funded by:</b>									
National Government		447 545	-	39 986	113 976	223 773	(109 797)	-49%	447 545
Other transfers and grants		-	-	-	-	-	-	-	-
<b>Transfers recognised - capital</b>		<b>447 545</b>	<b>-</b>	<b>39 986</b>	<b>113 976</b>	<b>223 773</b>	<b>(109 797)</b>	<b>-49%</b>	<b>447 545</b>
Internally generated funds		132 576	-	9 133	45 401	66 288	(20 887)	-32%	132 576
<b>Total Capital Funding</b>		<b>580 121</b>	<b>-</b>	<b>49 119</b>	<b>159 377</b>	<b>290 061</b>	<b>(130 684)</b>	<b>-45%</b>	<b>580 121</b>

Chart C1 2015/16 Capital Expenditure Monthly Trend: actual v target

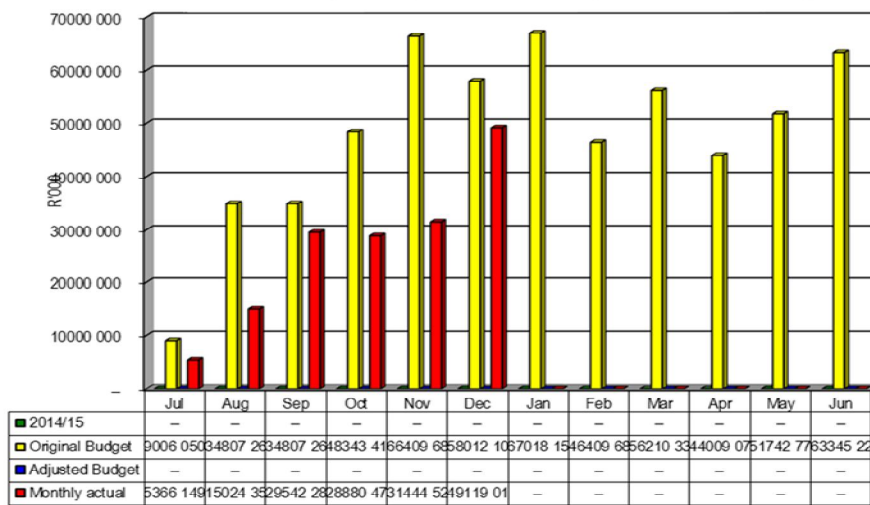
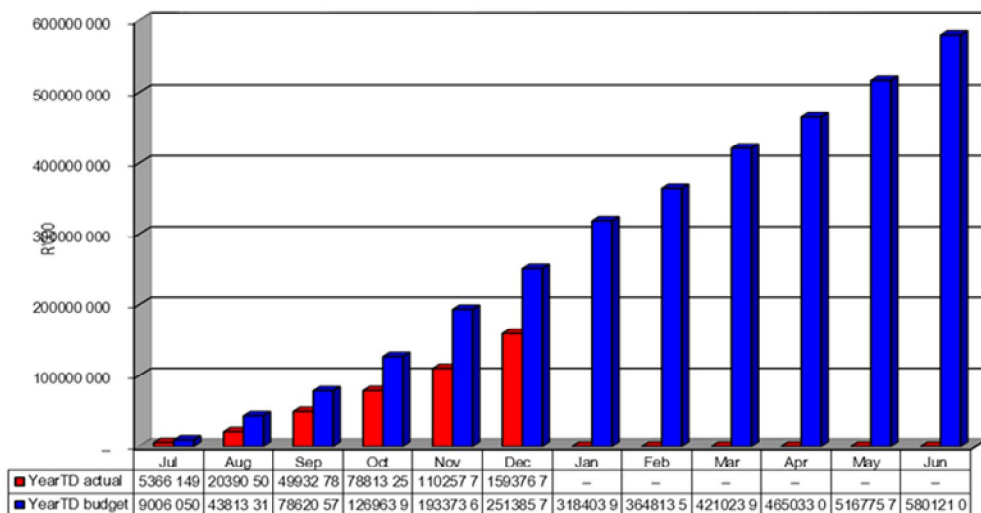


Chart C2 2015/16 Capital Expenditure: YTD actual v YTD target



Municipality has spent R159 376 700.35 as at 31<sup>st</sup> December 2015 against the original budget of R580 121 000, which represents 21% of overall spent as compared to 9% which was spent in the previous intervening period (31<sup>st</sup> December 2014). The total roll-over for the 2014/15 financial year is R175 544 000, of which R102 432 202 has been spent which represents 58% as compared to 56% which was spent in the intervening period in 2013.

The colossal reason for under-spending was attributed by the fact there was delay in the appointment of service providers due to moratorium on supply chain management imposed by council in June 2015. Municipality will run at the risk of either losing grant allocations or receiving less grant allocation from National Treasury in future if the spending is not accelerated.

## 6.2 Capital Programme

### 6.2.1 New projects

The 10 projects from Roads and Stormwater are behind schedule due to late appointment of service providers. The 2 projects for Information Technology including the one's at design are mainly for purchasing (Supply, delivery and installation) except for Sports and Recreation which documents for the specifications for the projects are not yet finalised. SBU's need to fast track the finalisation of specifications for the projects to avoid further delays on the implementation. Out of the 120 projects, 67 are at implementation stage and 5 have been completed.

#### Summary of new capital projects (2015/16 Financial Year)

Description (SBU)	Number of Projects	Progress							
		Planning	Design	BS C	Advert	BE C	BA C	Appointed/ Implementation	Completed
Facility Management	5		1					4	
Roads and Stormwater	34	10	1				1	21	1
Water and sanitation	18		1			1		16	



Description (SBU)	Number of Projects	Progress							
		Planning	Design	BS C	Advert	BE C	BA C	Appointed/Implementation	Completed
Energy Services	7		5	1	1				
Traffic and Licenses	5				1		1	3	
Disaster and Fire	7				4			3	
Safety and Security	9		7		1			1	
Environmental Management	6		2					4	
Waste Management	8				1	1		4	2
Environmental Health	2						1	1	
Sports and Recreation	8		3		1			4	1
Libraries	2							2	
Information Services	3	2							1
City Planning	2				1			1	
Transportation Operations	3							3	
Supply Chain Management	1							1	
<b>TOTAL</b>	<b>120</b>	12	20	1	10	2	3	67	5

### 6.2.2 Roll-over projects

There is only 1 project for Water and Sanitation in planning stage and is mainly for purchasing of equipment which at the moment nothing has been bought. The project for Waste Management in

design stage is taking longer than anticipated to be implemented due to delays in finalising the designs by the Engineer. Out of the total of 40 projects, 15 are complete and 17 are at implementation stage.

### Summary of roll-over capital projects (2014/15 Financial Year)

Description (SBU)	Number of Projects	Progress							
		Planning	Design	BS C	Advert	BE C	BAC	Appointed / Implementation	Completed
Facility Management	3							3	
Roads and Stormwater	3							2	1
Water and sanitation	14	1					1	7	8
Energy Services	5				1			1	3
Disaster and Fire	1								1
Environmental Management	1								1
Waste Management	2		1						1
Sports and Recreation	7						3	3	
Transportation Operations	2							2	
Museums	1						1		
Secretariat and records	1							1	
<b>TOTAL</b>	<b>40</b>	<b>1</b>	<b>1</b>		<b>1</b>		<b>5</b>	<b>17</b>	<b>15</b>

### 6.2.3 Staff Expenditure

The municipality is reporting the mid-year expenditure on staff benefits in terms of section 66 of the MFMA. The expenditure includes councillors and staff salaries, wages, allowances and benefits.

Employee benefits breakdown for the month ended 31 December 2015 are as follows:

#### Councillors (Political Office Bearers)

Description	December	Total
Basic salary and wages	1 364 610.11	8 183 755.39
Pension Fund	37 538.60	221 688.06
Medical Aid	44 144.64	242 881.19
Motor Vehicle Allowance	386 176.92	2 308 235.67
Cell phone	137 843.48	824 250.64
<b>Total</b>	<b>1 970 313.75</b>	<b>11 780 810.95</b>

#### Directors

Description	December	Total
Basic Salaries and Wages	546295.38	3854421.14
Pension Fund and UIF Contributions	69 039.33	483 425.30
Medical Aid Contributions	14 021.44	84 095.40
Annual bonus	130 619.22	241 840.84
Motor Vehicle Allowance	75 000.00	710 619.22
Other benefits and allowances	1 142 784.77	1 891 733.74
<b>Total</b>	<b>1 977 760.14</b>	<b>7 266 135.64</b>

## Municipal Staff

Description	December	Total
Basic Salaries and Wages	29160249.62	167 793 477.14
Pension Fund and UIF Contributions	5 628 773.59	32 785 264.49
Medical Aid Contributions	1 752 804.54	10 139 339.42
Overtime	3 542 681.37	22 664 241.13
Motor Vehicle Allowance	3 114 170.06	18 382 911.82
Housing Allowances	236 919.00	1 302 960.00
Other benefits and allowances	1 002 104.16	4 239 277.94
Payments in lieu of leave		10 796 278.11
<b>Total</b>	<b>44 437 702.34</b>	<b>268 103 750.05</b>

## 7. Supply Chain Management

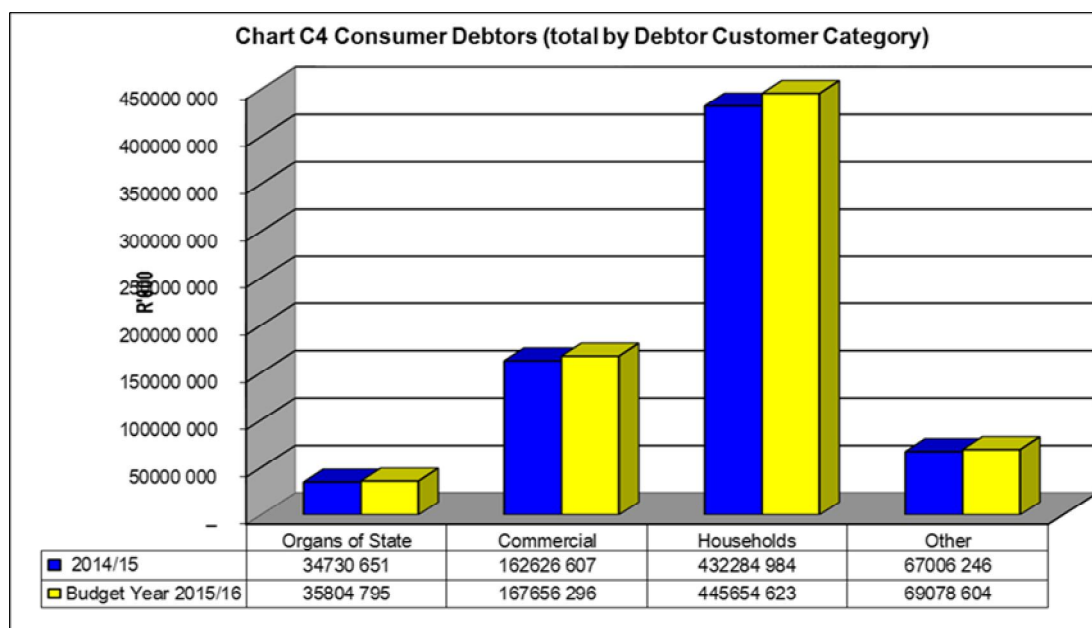
The municipality has awarded contracts to the value of R625 million as at 31<sup>st</sup> December 2015, which are single and multi-year projects. More than 97% of the projects or tenders were awarded to the BBBEE compliant companies. Stringent controls are put in place to avoid section 32 of the MFMA. Contract management has been strengthened to ensure that all the goods and services are delivered in accordance with the law and regulation while at same time properly constituted bid committees were appointed and meet on a weekly basis.

## 8. Public Private Partnerships (Off-Balance Sheet Projects and alternative funding projects)

The municipality has included various Off-Balance Sheet projects in the Integrated Development Plan of the municipality as part of the objective of achieving the Smart City Vision. The projects include smart metering, broadband connectivity, energy, land use and water projects. Feasibility studies has been completed and procurement will be finalised by the end of February 2016 while at same time section 33 of the MFMA process will follow later in March 2016. Funding for AC pipes has been approved by DBSA and service providers will be appointed by the end of April 2016.

## 9. Debtors Analysis

The municipality had a total debt of R 718 194 317 as at 31 December 2015 as compared to total debt book of R 620 242 012.94 as at 31 December 2014. Major increase was attributable to estimation of accounts in October 2015 of which the system was repeated in November (not yet reversed). The following represents the total balance which is collectable after having taken the impact of provision for bad debts.



The following represents the total balance which is collectable after having taken the impact of provision for bad debts.

Description	Amount
Total over 90 days	541,230,427
Less Bad debts handed over	200,000,000
	<b>341,230,427</b>
Provision for bad debt	176,601,640
Recoverable over 90 Days	<b>164,628,788</b>

## 10. Creditors, Borrowings and Finance Leases

The municipality is complying with Section 65 (e) of the MFMA and is able to pay its creditors within a period of 30 days upon receipts of certified invoices. In terms of borrowings, the

municipality has paid its loan repayment to DBSA as at 31<sup>st</sup> December 2015 and the next repayment is due on the 30<sup>th</sup> June 2016.

The outstanding borrowings as at 31<sup>st</sup> December 2015 was at R195 262 802.99 as compared to 31<sup>st</sup> December 2014 at R298 587 916.50. The decrease was as a result of the continuous repayment of the loan as part of the loan agreement. The loan is repayable over the period of 20 years which is due in 2031.

The municipality has entered into a finance lease agreement with Fleet Africa. The lease is amortized over 5 years which is due in 2017.

#### 11. Consideration of Key Ratios (Performance Indicators)

No	Description	Basis for calculation	YTD 31 <sup>st</sup> December 2014	Benchmark
1	Borrowing to asset ratio	Total Borrowing/Total asset	4%	25%
2	Gearing Ratio	Borrowing/Total projected income	21%	45%
3	Current ratio	Current asset/current liabilities	1.7:1	1.5:1
4	Electricity distribution losses	% volume. Units purchased and generated>Units sold/units purchased and generated	17.7%	5.6 to 12
5	Water distribution losses	% volume. Units purchased and generated>Units sold/units purchased and generated	45%	15%
6	Debtors collection rate	Receipts/billing	88%	95

### **11.1 Borrowing to asset ratio**

Borrowing to asset ratio is currently at 4% as compared to 25% benchmark and this indicates that the municipality has got a borrowing capacity for further capital development.

### **11.2 Gearing Ratio**

The municipality has 21% gearing as compared to national benchmark of 45% which indicates the municipality has the borrowing capacity. The projected revenue for the municipality is able to repay the borrowed resources.

### **11.3 Current Ratio**

The municipality is currently at 1.71 as compared to the national norm of 1.5:1 which demonstrates the capacity to pay its current obligations if they fall due at any specific time.

### **11.4 Electricity distribution losses**

The municipality is currently busy working on a feasibility study on Smart metering with intention of reducing electrical losses and some of the output specification on Smart metering seeks to address electrical distribution losses. The feasibility studies have been completed to date and procurement process will be finalised by the end of February 2015.

### **11.5 Water distribution losses**

The municipality is currently busy working on a feasibility study concerning the replacement of old asbestos pipes with the intention of reducing water losses. The feasibility studies been completed to date and procurement process will be finalised by the end of February 2015.

### **11.6 Debtors collection rate**

Collection at the townships is still a challenge as the community riots make it difficult to enforce credit control policies hence the low collection rate. Political support is necessary to improve the collection rate.

## 12. Reasons for Material Variances

The revenue variances on the hiring and booking of Peter Mokaba Stadium were due to the lower crowd attendance in the PSL games. The municipality projected crowd attendance of between 22 000 and 30 000 spectators, Polokwane Municipality only managed an average attendance of between 10 000 and 15 000. The stadium facilities are running at a loss and measures need to be put in place to ensure that the utilisation of the stadium is optimised. The responsible department must consider revenue optimisation strategy in order to make the stadia sustainable. The projected revenue will be revised during the budget adjustment.

Other revenue related items which did not perform according to the planned forecast will be considered on an individual basis before the budget can adjusted downwards.

The material variances on the R30 million projected revenue on the sale of new sites was as of delay in advertisement for the sale of land, however, the process has been concluded to date and evaluation of applications is in progress.

Non approval of MIG and water service operating grant resulted in the equitable share being off-set which resulted into material variance in the budget. The grant budget will be revised during the budget adjustment in accordance with the current available allocation.

There is also a need to adjust the CRR funded projects downwards due to poor performance in spending and there is a likelihood that the entire CRR budget will not be spend at year end.

## 13. Grant Funding (Actual Receipts)

GRANT	BUDGET	TOTAL RECEIVED	%RECEIVED
Equitable share	522595000	236 012 000	45%
Finance Management Grant	1875000	1 875 000	100%
Mun Systems Improvement Grant	930000	930 000	100%
Mun Infrastructure Grant	314043000	177 780 000	57%
Public Transport Infrastructure Grant	184189000	92 094 000	50%
Extended publics work programme	4516000	3 161 000	70%
Integrated National Electrification Programme	92000000	40 000 000	43%
Neighbourhood Dev Partnership Grant	20000000	14 824 000	74%
Infrastructure Skills Development	5000000	2 250 000	45%
	<b>1 145 148 000</b>	<b>568 926 000</b>	<b>50%</b>



A total of 50% of grants allocated for 2015/16 has been received, compared to 67% that was received in 2014/2015. Two out of nine allocations have been received in full by 31<sup>st</sup> December 2015.

#### **14. Institutional Performance Report as per the Service Delivery and Budget and Implementation Plan**

The Institutional Performance Report has been compiled in line with both the provisions of the MFMA and the MSA. The report provides a performance review of how the municipality has performed during the first half (mid-year) of the 2015/16 financial year that is from 01 July 2015 to 31 December 2015. The Institutional Performance Report is based on the 2015/16 Approved Service Delivery and Budget Implementation as approved by Executive Mayor in June 2015.

The mid-year report indicates challenges with regard to the implementation of the Capital programmes that have a negative impact on the achievement of the basic service delivery targets.

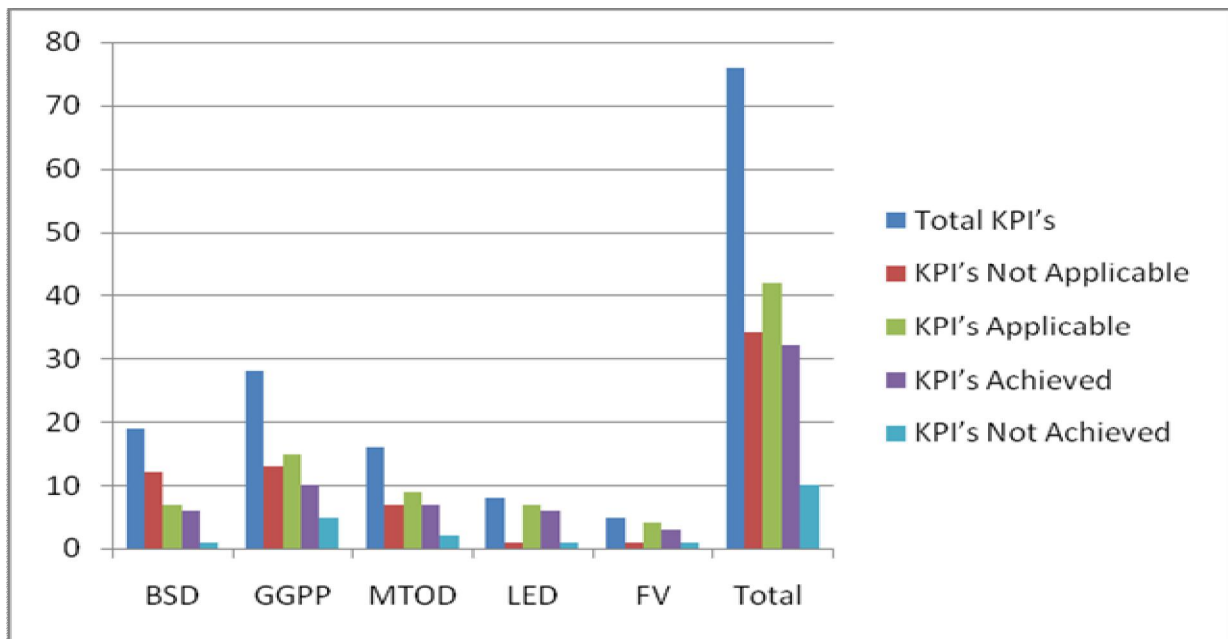
Early indications are that the performance against the output and goals of the Service Delivery and Budget Implementation Plan (SDBIP) is not well on track. Some KPI's have not been achieved due to reasons such as poor performance of projects as they have a direct impact on the service delivery indicators and poor planning and implementation of programmes. The municipality achieved 32 (76%) of a total number of 42 key performance indicators for the period June 2015 – December 2015. 10 (24%) performance indicators were not achieved. A total number of 29 (38%) of capital projects were achieved and 45 (62%) were not achieved as per the planned targets.

The tables below summarises the Institutional Performance on both the Key Performance Areas and the Capital Works Programme as per the Service Delivery and Budget Implementation Plan as at 31<sup>st</sup> December 2015.

14.1 Table: Key Performance Area Performance as at 31<sup>st</sup> December 2015

Key Performance Area	Total KPI's	KPI's Not Applicable	KPI's Applicable	KPI's Achieved	KPI's Not Achieved	% KPI's Achieved	% KPI Not Achieved
Basic Services and Infrastructure Development Key Performance Area	19	12	7	6	1	86%	14%
Good Governance and Public Participation Key Performance Area	28	13	15	10	5	67%	33%
Municipal Transformation and Institutional Development Key Performance Area	16	7	9	7	2	78%	22%
Local Economic Development Key Performance Area	8	1	7	6	1	86%	14%
Financial Viability Key Performance Area	5	1	4	3	1	75%	25%
<b>Total</b>	<b>76</b>	<b>34</b>	<b>42</b>	<b>32</b>	<b>10</b>	<b>76%</b>	<b>24%</b>

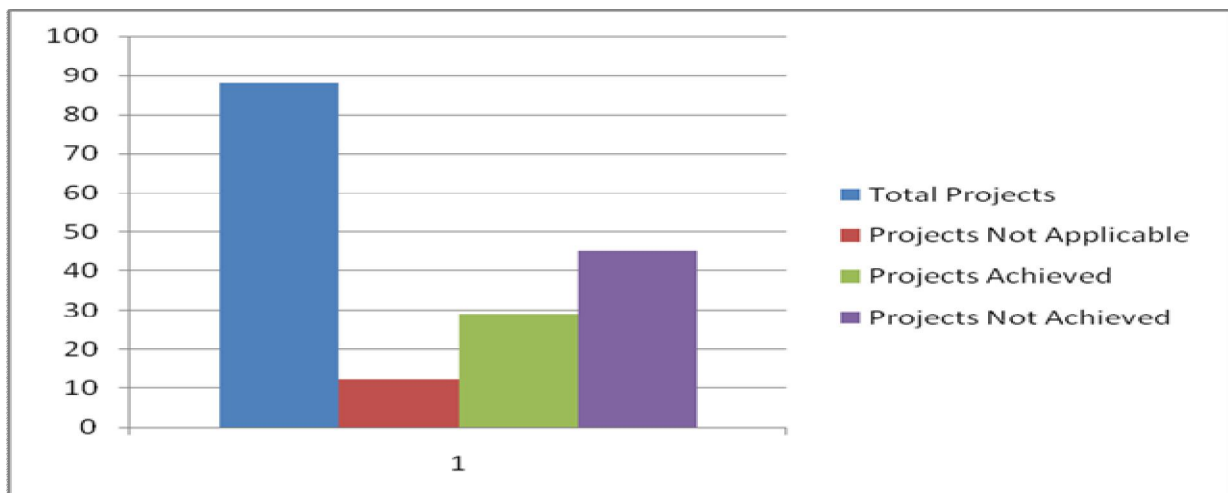
**Graph: Key Performance Area Performance as at 31<sup>st</sup> December 2015**



**14.2 Table: Capital Works Programme Performance as at 31<sup>st</sup> December 2015**

Total Projects	Projects Not Applicable	Projects Achieved	Projects Not Achieved	% Projects Achieved	% Projects Not Achieved
88	12	29	45	38%	62%

**Graph: Capital Works Programme Performance as at 31<sup>st</sup> December 2015**



## **15. Human Resources Development**

As at 31 December 2015, the municipality's approved organogram had a total of 3022 positions of which 1719 positions are filled and 286 positions are budgeted and the 1017 positions are not budgeted.

The Municipal Demarcation Board has concluded the process of re-determination of municipal boundaries in March 2015 whereby it concluded that Aganang municipality will be disestablished and its portions incorporated into the areas of Polokwane and Blouberg municipalities. However as this is an ongoing process, it will have an impact on the organogram of the institution as some of the employees from Aganang municipality might have to be incorporated into Polokwane municipality. The municipality needs to start planning on how the increased scope of the spatial area will affect the staff complement.

## **16. Past Year's Annual Report (2014/15) and Progress on Resolving Problems Identified in the Annual Report**

### ***Issues raised in the past annual report:***

- Material losses on water and electricity.
- Material impairment of debtors.
- Material under-spending on capital expenditure.
- Unauthorised expenditure on none-cash items.
- Significant uncertainty on litigations.
- Irregular expenditure.
- Predetermined objectives – reliability of information.

### ***Progress in resolving the issues raised:***

The municipality has developed the action plan to address the issues raised by the AG in the 2014/15 annual report. The Action Plan will be tabled in council for oversight. Once the report is approved, management will implement the action plan. The municipality has a well developed system of tracking and managing issues raised through the OPCA meetings. The meetings are coordinated by the Internal Audit.

## **17. Recommendations of the Accounting Officer to the Executive Mayor**

After having assessed the performance of the municipality for the first half of the year (01 July 2015 - 31 December 2015), the following is recommended:

- a) That the Executive Mayor tables this report to Council together with the need to approve an adjustment budget.
- b) That the revised projections as contained in this report inform the Adjustment Budget
- c) That Council adjust the municipal budget downwards to cover the budget shortfalls
- d) That Council approves that the Service Delivery and Budget Implementation Plan be adjusted with the necessary motivation where key performance indicators and capital works programme require adjustment as a result of the Adjustments Budget.

---

**FT MABOYA**  
**ACTING MUNICIPAL MANAGER**

---

**DATE**