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1. LEGISLATIVE BACKGROUND

In compliance of section 72 of the Municipal Finance Management Act (MFMA); *“the accounting officer of a municipality must by 25 January each year, assess the performance of the municipality during the first half of the financial year, taking into account:*

- *The monthly statements referred to in section 71 for the first half of the financial year;*
- *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;*
- *The past year’s annual report and progress on resolving problems identified in the annual report; and*
- *The performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities”.*
- *Furthermore, “the accounting officer must, as part of the review, make recommendations as to whether an adjustments budget is necessary; and recommend revised projections for revenue and expenditure to the extent that it may be necessary”.*

2. COMPLIANCE ASSESSMENT

The Municipal Budget and Reporting Regulations (section 35) requires that the municipal manager submit the mid-year budget and performance assessment by 25 January of each year, in both printed and electronic form. The municipality adhered to the due date and the report was submitted on **14 January 2019**.

Section 33 of the Municipal Budgeting and Reporting regulation state that a mid-year budget and performance assessment of a municipality must be in the format specified in Schedule C, and must include all the tables, charts and explanatory information, taking into account any guidelines issued by National Treasury.

Provincial Treasury conducted a compliance checklist on the format of the mid-year report submitted, and the municipality obtained a **47.8%** compliance rate, the detail information is found in **Annexure A**.

3. MID-YEAR ASSESSMENT

The municipality used financial system generated figures to compile the mid-year budget and performance assessment report. However, the figures contained in the municipal

mid-year assessment does not correspond to the figures submitted to the Local Government Database as at 31 December 2018.

3.1 Operating Budget

Table 1: Operating Revenue

Description R thousands	2017/18	Budget year 2018/19				
	Audited Outcome	Original Budget	Q1 Sept Actual	Q2 Dec Actual	YTD Actual	%
Revenue By Source						
Property rates	298,925	294,053	76,832	76,285	153,117	52.1%
Property rates - penalties and collection charges	-	-	-	-	-	
Service charges - electricity revenue	531,532	673,476	212,823	136,892	349,715	51.9%
Service charges - water revenue	317,720	361,260	77,843	95,640	173,483	48.0%
Service charges - sanitation revenue	150,464	155,578	35,339	48,001	83,341	53.6%
Service charges - refuse revenue	98,073	88,430	31,467	30,082	61,548	69.6%
Service charges - other	-	-	-	-	-	
Rental of facilities and equipment	13,963	21,060	20,768	3,110	23,877	113.4%
Interest earned - external investments	1,516	3,639	267	46	313	8.6%
Interest earned - outstanding debtors	177,971	135,684	30,241	47,720	77,961	57.5%
Dividends received	18	20	-	-	-	0.0%
Fines	10,525	21,060	926	632	1,558	7.4%
Licences and permits	-	75	12	35	47	61.9%
Agency services	-	-	1,689	3,156	4,845	
Transfers recognised - operational	399,297	461,252	191,265	129,707	320,972	69.6%
Other own revenue	31,640	224,710	6,065	(26,115)	(20,050)	-8.9%
Gains on disposal of PPE	-	50,000	-	-	-	0.0%
Total Revenue (excl. capital transfers and contributions)	2,031,645	2,490,298	685,538	545,190	1,230,728	49.4%

Source: Local Government Database

Table 1 shows the operating revenue per revenue source:

- The total revenue generated is in line with the straight line projection of 50%.
- There were negative billing reported for other own revenue amounting to –R26 million.
- Agency services of R4.8 million was levied, however, this item did not have budget.

Table 2: Operating Expenditure

Description	2017/18	Budget year 2018/19				
	Audited Outcome	Original Budget	Q1 Sept Actual	Q2 Dec Actual	YTD Actual	%
R thousands						
Expenditure By Type						
Employee related costs	691,253	732,642	170,530	162,665	333,194	45.5%
Remuneration of councillors	31,681	30,822	8,448	8,122	16,569	53.8%
Debt impairment	525,551	142,020	1,105	744	1,849	1.3%
Depreciation and asset impairment	214,017	136,000	-	-	-	0.0%
Finance charges	202,261	133,865	117	112	229	0.2%
Bulk purchases	953,172	921,205	91,139	76,789	167,928	18.2%
Other Materials	61,039	122,508	25,331	45,045	70,376	57.4%
Contracted services	179,885	104,068	23,105	27,204	50,309	48.3%
Transfers and grants	-	-	-	-	-	-
Other expenditure	184,395	92,307	30,920	50,245	81,165	87.9%
Loss on disposal of PPE	-	-	-	-	-	-
Total Expenditure	3,043,254	2,415,436	350,695	370,926	721,621	29.9%

Source: Local Government Database

Table 2 reflects the operating expenditure per line item.

- There was low spending on bulk purchases (18.2 percent) based on the straight line projection of 50%.
- Low or no spending was reported on debt impairment (1.3%) and depreciation and asset impairment (0%).
- The municipality must adjust the other expenditure downwards, according to the current financial position.

3.2 Capital Budget

Table 3: Capital Expenditure & Funding

Description	2017/18	Budget year 2018/19				
	Audited Outcome	Original Budget	Q1 Sept Actual	Q2 Dec Actual	YTD Actual	%
R thousands						
Capital Expenditure - Standard						
Governance and Administration	709	-	-	-	-	
Executive & Council						
Budget & Treasury Office						
Corporate Services	709					
Community and Public Safety	26,122	42,418	1,158	5,807	6,965	16.4%
Community & Social Services	3,213			261	261	
Sport And Recreation	19,689	42,418	1,158	5,546	6,704	15.8%
Public Safety						
Housing	3,220					
Health						
Economic and Environmental Services	53,649	21,223	8,431	6,005	14,436	68.0%
Planning and Development		2,235	1,447		1,447	64.7%
Road Transport	53,649	18,988	6,984	6,005	12,989	68.4%
Environmental Protection						
Trading Services	89,770	99,765	13,500	23,686	37,185	37.3%
Electricity	2,065	12,912		248	248	1.9%
Water	833	86,853	206	1,708	1,914	2.2%
Waste Water Management	85,397		13,294	21,729	35,023	
Waste Management	1,474					
Other						
Total Capital Expenditure - Standard	170,249	163,406	23,089	35,497	58,586	35.9%
Funded by:						
National Government	141,911	163,406	23,089	35,497	58,586	35.9%
Provincial Government						
District Municipality						
Other transfers and grants						
Transfers recognised - capital	141,911	163,406	23,089	35,497	58,586	35.9%
Public contributions and donations						
Borrowing						
Internally generated funds	28,338					
Total Capital Funding	170,249	163,406	23,089	35,497	58,586	35.9%

Source: Local Government Database

Table 3 displays the capital sources and expenditure and it shows that the municipality has spent 35.9 percent of the total capital budget of R163 million as at end of December 2018.

- Expenditure was incurred for projects relating to community & social services and waste water management, although no budget was provided.
- Of concern is own low spending on trading services (Electricity and water both at 2 percent).
- The budget should be adjusted downwards, as the internal funds of R28.3 million will most likely not realize due to the current financial position of the municipality.

3.3 Cash Flow Budget

Table 4- Cash Flow Statement

	Original Budget	Actuals YTD	%
Cash receipts by source			
Statutory receipts (including VAT)	264,647	98,293	37.1
Service charges	833,734	342,981	41.1
Transfers (operational and capital)	624,658	426,168	68.2
Other receipts	299,517	54,928	18.3
Cash receipts by source	2,022,556	922,370	45.6
Other cash flows / receipts by source			
assets			
Proceeds on disposal of PPE	50,000		
External loans			
Net increase (decrease) in assets / liabilities			
Total cash receipts by source	2,072,556	922,370	44.5
Cash payments by type			
Employee related costs	690,200	349,763	50.7
Grant and subsidies			
Bulk Purchases - electricity, water and sewerage	902,781	167,928	18.6
Other payments to service providers	313,286	193,932	61.9
Cash payments by type	1,906,267	711,623	37.3
Other cash flows / payments by type			
Capital assets	163,406	58,586	35.9
Repayment of borrowing			
Other cash flows / payments		1,849	
Total cash payments by type	2,069,673	772,058	37.3
Net increase (decrease) in cash held	2,883	150,312	5,213.7
Cash/ cash equivalents at the month/year begin	-4,875	-4,875	
Cash/ cash equivalents at the month/year end	-1,992	145,436	

Source: Local Government Database

Table 4 reflects the cash flow statement and the following were noted:

- The municipality reported a closing balance of R145 million.
- The total year-to-date collection rate for property rates, service charges and interest is 49.42 percent, which is below the budgeted collection rate of 72.2 percent.

- The municipality is struggling to collect revenue on service charges (water, sanitation and refuse removal). The lowest collection rate was recorded in November at 38.39 percent.
- The cash flow should be adjusted downward, based on the actual collections reported.

Table 5: Collection rate per income source (year – to date)

Income Source	Billed	Collected	% Collected
Property Rates	153,117	98,293	64.19
Service Charges – Electricity	349,715	246,155	70.39
Service Charges – Water	173,483	50,522	29.12
Service Charges – Sanitation	83,341	30,278	36.33
Service Charges – Refuse Removal	61,548	16,027	26.04
Service Charges – Other			
Interest earned – outstanding debtors	77,961	3,120	4.00
Total	899,165	444,394	49.42

3.4 Outstanding Debtors

Table 7 – Outstanding Debtors

Debtors Age Analysis By Income Source	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	R 000	%	R 000	%	R 000	%	R 000	%	R 000	%
Trade and Other Receivables from Exchange Transactions - Water	45,753	4.5%	20,161	2.0%	18,000	1.8%	926,409	91.7%	1,010,322	33.0%
Trade and Other Receivables from Exchange Transactions - Electricity	43,473	16.1%	19,975	7.4%	12,220	4.5%	193,785	71.9%	269,453	8.8%
Receivables from Non-exchange Transactions - Property Rates	23,769	8.1%	8,873	3.0%	7,292	2.5%	253,515	86.4%	293,449	9.6%
Receivables from Exchange Transactions - Waste Water Management	13,776	3.4%	10,950	2.7%	10,741	2.6%	370,254	91.3%	405,721	13.3%
Receivables from Exchange Transactions - Waste Management	8,418	3.2%	6,550	2.5%	6,467	2.5%	241,856	91.9%	263,290	8.6%
Receivables from Exchange Transactions - Property Rental Debtors	1,174	1.7%	1,145	1.7%	1,121	1.7%	64,486	94.9%	67,926	2.2%
Interest on Arrear Debtor Accounts	15,989	2.2%	15,615	2.2%	15,223	2.1%	664,795	93.4%	711,622	23.3%
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	—	—	—	—	—	—	—	—	—	—
Other	382	1.1%	1,531	4.3%	1,530	4.3%	31,995	90.3%	35,437	1.2%
Total By Income Source	152,733	5.0%	84,800	2.8%	72,595	2.4%	2,747,093	89.9%	3,057,221	100.0%
Debtors Age Analysis By Customer Group										
Organs of State	10,298	11.5%	5,772	6.4%	4,489	5.0%	69,341	77.1%	89,900	2.9%
Commercial	51,008	9.1%	22,370	4.0%	13,301	2.4%	476,826	84.6%	563,506	18.4%
Households	89,936	3.8%	55,241	2.3%	53,426	2.3%	2,164,385	91.6%	2,362,988	77.3%
Other	1,491	3.7%	1,418	3.5%	1,378	3.4%	36,540	89.5%	40,827	1.3%
Total By Customer Group	152,733	5.0%	84,800	2.8%	72,595	2.4%	2,747,093	89.9%	3,057,221	100.0%

Source: Local Government Database

Table 7 illustrates the outstanding debtors. The municipality reported outstanding debtors amounting to R3.1 billion, 89.9% has been outstanding for more than 90 days and 77.3% is owed by households.

- **Debt owed by councilors / staff**

Debt owed by Councillors / Municipal Officials				
Age Analysis	Councillors		Municipal Officials	
	Former R'000	Current R'000	Former R'000	Current R'000
0 - 30 Days		68		1,402
31 - 60 Days		32		747
61 - 90 Days		25		724
Over 90 Days	0	970		26,084
Total	0	1,094	0	27,931

Total amount owed by councilors and municipal officials is R29 million as at December 2018.

3.5 Creditors

Table 7 – Outstanding Creditors

Creditors	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	R 000	%	R 000	%	R 000	%	R 000	%	R 000	%
Bulk Electricity	58,390	2.7%	559	0.0%	56,965	2.7%	2,027,505	94.6%	2,143,420	44.1%
Bulk Water	43,854	1.7%	63,520	2.4%	54,686	2.1%	2,435,782	93.8%	2,597,842	53.4%
PAYE deductions	8,741	50.7%	8,483	49.2%	9	0.1%	–	0.0%	17,234	0.4%
VAT (output less input)	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Pensions / Retirement deductions	22,739	84.0%	4,341	16.0%	–	0.0%	–	0.0%	27,081	0.6%
Loan repayments	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Trade Creditors	11,935	18.1%	11,364	17.2%	2,546	3.9%	40,254	60.9%	66,099	1.4%
Auditor General	1,397	14.7%	3,067	32.3%	2,673	28.1%	2,363	24.9%	9,500	0.2%
Other	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Total	147,057	3.0%	91,334	1.9%	116,880	2.4%	4,505,904	92.7%	4,861,174	100.0%

Source: Local Government Database

Table 7 indicates the outstanding creditors. The municipality' outstanding creditors amounted to R4.9 billion and 92.7 percent is outstanding for more than 90 days.

The debt of creditors that are owed for more than 90 days is growing on a monthly basis.

- Bulk Services Debt**

Eskom

Overdue Balance	Details of actions taken and timeframes of actions to recover arrears
R2,028,486,650	The municipality failed to uphold the agreement and Eskom intended to start with supply interruptions. As a result, the municipality went to court on 14 December 2018. It was agreed that the parties will appear on 31 January 2019 to argue the payment of the current account.

FS184 Matjhabeng

Mid-year Budget & Performance Assessment – 2018/19

Evaluation Report

Sedibeng

Total Balance R'000	Principal Arrear Amount R'000	Interest Portion R'000	Details of actions taken and timeframes of actions to recover arrears
R2,599,373,081	R2,414,597,805	R184,775,276	<p>A mediation meeting was held by SALGA between SW and Matjhabeng LM on the 22 February 2018 where both parties were urged to reach payment agreement. An action plan was therefore drafted from the meeting and circulated to all the responsible parties for actioning.</p> <p>The municipality account has been handed over to the debt collectors and an amount of R30 million was paid after the letter of demand was sent on the 27th of June 2018.</p> <p>The Municipality did not Pay in October, November and December 2018.</p>

• Status of 3rd party payments

Outstanding payments to 3rd Parties										
Creditors	Pension Funds R	Medical Aids R	Insurance R	SARS R	Garnishes R	Maintenance R	Loans R	Doctors R	Unions R	Other R
0-30 Days	7 399 213	4 329 786	457 227	8 741 478						
31-60 Days	4 341 283			8 482 962	268 060		4 303 660		156 994	1 596 607
61-90 Days										
Over 90 Days										
Total	11 740 496	4 329 786	457 227	17 224 440	268 060	0	4 303 660	0	156 994	1 596 607

The total amount outstanding for 3rd party payments is R40.1 million as at end of December 2018.

3.6 Grants 2018/19

Conditional Grant	Allocations	Transferred	Received	Spend	% Spent on Allocation
			Mun	Mun	
EPWP	1,000,000	250,000	250,000	1,274,196	127.4
FMG	2,215,000	2,215,000	2,215,000	1,903,902	86.0
INEP	10,000,000	2,000,000	6,000,000	0	0.0
MIG	116,581,000	71,696,000	71,696,000	53,289,588	45.7
WSIG	36,825,000	17,500,000	27,500,000	5,296,345	14.4

High spending was reported on the FMG because of the revised FMG support plan.

Low or no spending was reported for INEP (0%) and WSIG (14.4%)

- 2017/18 Unspent Conditional Grants**

An amount of R 23.3 million was unspent for the 2017/18 financial year:

Grant	R'000
WSIG	19,200
INEP	4,100

The amount was deducted from the municipality's equitable share in tranche of December 2018.

4. PERFORMANCE AGAINST TARGETS IN THE SDBIP

The service delivery performance during the first half of the financial year was not included in the mid-year budget review.

5. AUDIT OUTCOMES FOR 2017/18

The municipality did not include information of audit outcome for 2017/18 financial year in their mid-year report. However, the municipality received qualified audit report.

Municipality	Opinion	Audit action plan	Qualification/Compliance matter 2017/18 AFS	Compliance paragraphs 2017/18 AFS
Matjhabeng	Qualified	Not yet received	<ul style="list-style-type: none"> • Property, plant and equipment, • Service charge, • Receivables from exchange transactions & • General expenditure. 	<ul style="list-style-type: none"> • Annual financial statements • Expenditure management, • Revenue management, • Asset management, • Liability management, • Procurement and contract management, • Utilisation of conditional grants & • Human resource management.

6. ADJUSTMENT BUDGET FOR 2018/19

The municipality indicated that an adjustment budget for 2018/19 is required and must be submitted to council.

The municipality should consider adjusting the budget (operating and capital) downwards, due to the current financial position and the fact that the internal funding will not realize for the capital budget.

7. mSCOA IMPLEMENTATION

7.1 ORGB vs A1 verification

During the 2018/19 budget verification process the ORGB datastring was compared to the A1 budget schedule, approved by Council and a significant number of variances were found on tables A2, A4, A5, A6, A7 and A9.

All identified variances should be corrected during the adjustment budget process, to ensure that the ADJB datastring and the B-schedule is 100% aligned. This can be achieved by preparing the adjustment budget on the financial system, and generating the B-schedule from the financial system, which can then be submitted to Council for approval.

7.2 Item segment tool feedback

In addition to the above, an assessment was conducted on the item segment used during the original budget. The following main deficiencies were noted and should be addressed during the adjustment budget process:

- No budget for incidental cost under the transport and subsistence item.
- Out of pocket expenses and travel allowance for the Chief Whip and councillors were not included in the budget.
- No budget for the compensation of senior managers was provided.
- No budget for staff recruitment and tenders under the communication item.

8. KEY FINDINGS/RECOMMENDATIONS

- The budget (operating & capital) should be adjusted downwards, based on the current financial position.
- Low collection rate of 54 percent compare to pay rate of 60 percent which could cause cash flow problems and can results in non-payment of bulk purchases.
- The municipality should consider ring-fencing the electricity service charges to be able to pay the Eskom current account.
- The municipality must implement stringent credit control and debt collection measures as a matter of urgency.
- Revenue collection committee must be established and the municipality must ensure that creditors are paid as per section 65 of the MFMA.
- The municipality did not include the SDBIP in the mid-year report. Measures should be put in place to ensure that all KPI's are achieved in the financial year. Should further support be needed on performance improvement, CoGTA can be contacted for support.
- Payment plans with Eskom and other creditors must be provided for in the adjustment budget.
- The adjustment budget should be prepared within the financial system, using the budget module. Provincial Treasury should be invited to be part of the capturing of the adjustment budget on the financial systems at the municipalities. All variances and deficiencies identified during the budget verification process should be corrected.

- mSCOA regulations should be taken into consideration when compiling the 2018/19 adjustment budget and the 2019/20 MTREF budget and ensure that the mSCOA tables are used in full.

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