

OVERVIEW OF OPERATING REVENUE AND EXPENDITURE PERFORMANCE FOR THE PERIOD JULY 2015 TO DECEMBER 2015

Below is an analysis of the operating revenue and expenditure performance compared to the approved 2015/16 Operating Budget.

	2015/16 Operating Budget R'000	Actual as at 31 December 2015 R'000	% of Budget
OPERATING REVENUE			
Property Rates	1,504,945	759,190	50.45
Sale of Electricity	3,519,222	1,652,479	46.96
Sale of Water	639,699	306,932	47.98
Refuse Charges	222,076	109,707	49.40
Sewerage Charges	436,338	227,162	52.06
Total Service Charges	4,817,335	2,296,280	47.67
Rent of Facilities and Equipment	23,342	10,581	45.33
Interest Earned – External Investments	70,145	35,285	50.30
Interest Earned – Outstanding Debtors	159,327	31,085	19.64
Fines	11,861	13,329	112.38
Licenses and Permits	11,963	4,740	39.62
Income for Agency Services	2,428	1,166	48.85
Grants & Subsidies Received - Operating	1,327,271	704,556	53.08
Other Revenue	956,838	428,313	44.30
Total Direct Operating Revenue	8,885,456	4,284,525	48.22
OPERATING EXPENDITURE			
Employee Related Costs	2,289,517	1,076,396	47.01
Remuneration of Councillors	64,429	29,620	45.97
Bad Debts	379,384	250,030	65.90
Depreciation	873,746	436,990	50.01
Repairs and Maintenance – Municipal Assets	524,729	179,792	34.26
Interest Expense – External Borrowings	168,361	58,483	34.74
Purchase of Electricity	2,638,068	1,425,591	54.04
Purchase of Water	104,101	41,966	40.31
Total Bulk Purchases	2,742,169	1,467,557	53.52
Contracted Services	333,353	139,200	41.76
Grants & Subsidies Paid	430,509	240,814	55.94
General Expenses – Other	1,013,642	421,798	41.61
Total Direct Operating Expenditure	8,819,839	4,300,680	48.76
Surplus / (Deficit)	65,617	-16,155	

Below is a discussion of the significant revenue and expenditure variations:

The statement of financial performance indicates a deficit of approximately R16.16 million. The statement of financial performance should not be viewed in isolation from the cash flow statement and the cash flow forecast as discussed in **Annexure A3** of this report.

Revenue Variations

Rental of facilities

The actual rentals raised for the period July 2015 to December 2015 amounted to R10.58 million or 45.33% of the 2015/16 Original Budget for Rental of Facilities and Equipment of R23.34 million. In order to enhance the income derived from this revenue source market related rentals should be charged relating to all Council's properties. An investigation should be undertaken to determine the revenue potential of this revenue source, including the factors that are impeding this revenue source from achieving its full potential.

Interest Earned – External Investments

Interest earnings are influenced by the extent of the municipality's investment portfolio.

Interest Earned – Outstanding Debtors

The low amount is due to the reversal of interest relating to the high energy users.

Fines

This revenue source has been decreased from R36.8 million in the 2014/15 Original Budget to R11.9 million in the 2015/16 Original Budget, due to underperformance in respect of the collection of traffic fines. The actual cash receipted in relation to traffic fines for the period July 2015 to December 2015 amounted to R11.36 million or 156.18% of the 2015/16 Original Budget for Traffic Fines of R7.28 million. It is important to note that R7.69 million was collected in the period October 2015 to 31 December 2015 which indicates a much improved fines collection effort from the Safety and Security Directorate.

Licences and Permits

The revenue earned for Drivers Licence Card Conversion amounted to R4.54 million representing only 40.67% of the 2015/16 Operating Budget of R11.15 million. The Safety and Security Directorate has indicated that the following, resulted in the actual revenue being below the required level:

- Legislation does not specify where card conversions must take place, with such services also being provided by neighbouring municipalities.

Service charges – electricity revenue

Although electricity revenue raised is at 46.96%, compared to the 2015/16 Operating Budget, it does not include the consumption in respect of Medium and Large Businesses billed during January 2016, relating to December 2015 consumption. The electricity revenue must however, be assessed once all billing information is available. The impact of the high energy users' agreement on the Electricity revenue must be considered. Therefore the 2015/16 Adjustment Budget in respect of Electricity Revenue should be critically analysed to ensure that the principle of realistically anticipated revenue is applied.

Expenditure Variations:

Employee related costs

The moratorium on the filling of vacancies has assisted in the spending level only be at 47%. Indications are that the current budget level might not be adequate due to various risk factors such as overtime, scarce skills, filling of critical vacancies, etc.

Bad Debts

Bad debts are written off upon Council's approval. The actual figure is influenced by the arrear debt write-offs in respect of high energy users.

Bulk Purchases

The purchase of electricity during the period July 2015 to December 2015 is more than anticipated in the 2015/16 Budget due to a 1.31% increase in the units purchased, compared to the corresponding period July 2014 to December 2014. As at 31 December 2015, 54.04% of the Electricity Bulk Purchases Budget was spent. A **critical** analysis will be required to determine whether the 2015/16 Adjustments Budget requires amendment for Electricity Bulk Purchases.

Indications are, based on current spending patterns, that the 2015/16 Operating Budget for Bulk Purchases may be overspent. In this regard section 70 of the MFMA stipulates that:

- (1) The accounting officer of a municipality must report in writing to the municipal council –
 - (a) any impending -
 - (i) shortfalls in budgeted revenue; and
 - (ii) overspending of the municipality's budget; and
 - (b) any steps taken to prevent or rectify such shortfalls or overspending.

Repairs and Maintenance

The repairs and maintenance of assets are undertaken on an ongoing basis.

Below is an analysis of actual repairs and maintenance expenditure by Directorate, compared to the approved 2015/16 Operating Budget.

Directorate	Operating Budget	Actual as at 31 December 2015	% of Budget
Budget & Treasury	2,266,170	38,814	1.71
Public Health	8,688,930	2,139,614	24.62
Human Settlements	1,924,000	595,956	30.97
Economic Development , Tourism and Agriculture	2,302,070	1,205,070	52.34
Sports, Recreation, Arts and Culture	31,149,590	5,353,041	17.18
Corporate Services	23,820,750	6,365,691	26.72
Rate and General: Infrastructure & Engineering	129,839,320	53,163,398	40.95

Directorate	Operating Budget	Actual as at 31 December 2015	% of Budget
Water Services	126,176,430	44,507,669	35.27
Sanitation Services	128,962,030	39,926,733	30.96
Electricity and Energy	54,922,640	20,676,204	37.65
Executive and Council	3,814,380	2,788,638	73.11
Safety and Security	10,631,840	3,009,263	29.04
Strategic Programmes Directorate	230,940	22,401	9.70
Total	524,729,090	179,792,492	34.26

The Office of the Chief Operating Officer residing under Executive and Council has incurred expenditure in the amount of R2 683 381.96 in respect of GIS Software maintenance.

Electricity losses

Council resolved on 18 June 2015 that:-

The Executive Director: Electricity and Energy report on progress with the implementation of a strategy by 11 June 2015 to reduce electricity losses in the 2015/16 financial year, so as to achieve a minimum reduction of R50 million in bulk electricity purchases.

The losses as a percentage of sales have increased in the past few years from 7% to 15%. These losses comprise both technical and non technical losses. The non technical losses have seen the biggest increase due to the theft of electricity. The Directorate has appointed a service provider that will assist with the reduction of losses, with effect from 1 March 2014.

As at 30 November 2015 electricity losses averaged 13.34%. This represented electricity losses amounting to approximately R134.9 million as at 30 November 2015. It was not possible to determine the actual electricity losses as at 31 December 2015 as all industrial and business electricity meters have not yet been read and input to the financial systems. The tariff used to calculate the loss is based on the bulk purchase price and does not include any distribution and administration costs.

Electricity and Energy Losses for 2015/16 are as follows:

Description	2014/15	Jul (‘000)	Aug (‘000)	Sep (‘000)	Oct (‘000)	Nov (‘000)	Dec (‘000)	Jan (‘000)	Feb (‘000)	Mar (‘000)	Apr (‘000)	May (‘000)	June (‘000)	YTD Total (‘000)
Total Purchases Energy (kWh)	3,538,164	320,834	310,602	297,930	306,627	296,725	0	0	0	0	0	0	0	1,532,718
Total Sales Energy (kWh)	3,054,103	265,984	263,188	256,855	265,269	256,123	0	0	0	0	0	0	0	1,307,329
Unbilled energy (kWh)	484,061	54,940	47,414	41,075	41,359	40,602	0							225,389
Street Light and Traffic Lights (kWh)	49,122	4,094	4,094	4,094	4,094	4,094	0	0	0	0	0	0	0	20,468
Energy Loss (kWh)	434,939	50,846	43,320	36,982	37,265	36,508	0	0	0	0	0	0	0	204,922
% Total Losses	12.29%	15.85%	13.95%	12.41%	12.15%	12.30%	0%	0%	0%	0%	0%	0%	0%	13.37%
Technical Losses in units	212,290	19,250	18,636	17,876	18,398	18,803	0	0	0	0	0	0	0	91,963
Non-Technical Losses in units	222,649	31,596	24,684	19,106	18,868	18,705	0	0	0	0	0	0	0	112,959
Average Purchase Price	0.56	0.83	0.80	0.53	0.53	0.52	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.66
Rand Value - Technical Losses	116,239	15,946	14,819	9,474	9,751	9,258	0	0	0	0	0	0	0	59,248
Rand Value - Non Technical Losses	128,136	26,172	19,628	10,126	10,000	9,726	0	0	0	0	0	0	0	75,651
Rand Value - Total Losses	244,375	42,118	34,446	19,600	19,751	18,984	0	0	0	0	0	0	0	134,899

- Electricity losses comprise of both Technical and Non Technical losses.
- Technical Losses are assumed to be at 6%.
- Technical Losses include electricity system and line losses that are unavoidable.
- Non Technical losses include theft by way of illegal connections, tampering etc.
- Internal consumption is the use of energy in municipal buildings.
- Average purchased price will be finally recalculated annually.

Water Losses

Council resolved on 18 June 2015 that:

The Executive Director: Infrastructure & Engineering report on progress with the implementation of a strategy by 11 June 2015 to reduce water losses.

The actual Water losses for the month of December were not available at the time this report was finalised.

The Department of Water Affairs has issued a new template for calculating Water losses. The real losses for the month of November 2015 were 4,006 KI which represents 43.0%. The total real losses for the period July 2015 to November 2015 were 21,932 KI which represents an average loss of 46.97% over the period.

Water Losses for 2015/16 are as follows:

Description	Total 2014/2015 '000	Jul 2015 '000	Aug 2015 '000	Sept 2014 '000	Oct 2014 '000	Nov 2014 '000	Dec 2014 '000	Jan 2015 '000	Feb 2015 '000	Mar 2015 '000	Apr 2015 '000	May 2015 '000	June 2015 '000	Total 2014/2015 '000
Total Purchases Water (kl) (SIV)	109,300	9,351	9,561	9,122	9,341	9,321	0	0	0	0	0	0	0	46,696
Total Sales Water (kl) / Authorised Consumption	62,656	4,809	4,957	4,432	5,253	5,314	0	0	0	0	0	0	0	24,765
Losses in Units	46,643	4,543	4,605	4,690	4,088	4,006	0	0	0	0	0	0	0	21,932
% losses or units not charged for	42.7%	48.6%	48.2%	51.4%	43.8%	43.0%	0%	0%	0%	0%	0%	0%	0%	46.97%
Less Apparent Losses	4,664	454	460	469	409	401	0	0	0	0	0	0	0	2,193
Real Losses in Units Excluding Apparent Losses	41,980	4,088	4,144	4,221	3,680	3,606	0	0	0	0	0	0	0	19,739
% Real Losses Excluding Apparent Losses	38.4%	43.7%	43.3%	46.3%	39.4%	38.7%	0%	0%	0%	0%	0%	0%	0%	42.27%
Average Price	R3.17	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55	R3.55
Rand Value Real Losses	148,000	16,128	16,347	16,649	145,514	14,223	0	0	0	0	0	0	0	77,858

Please note that the tariff used is only based on the average purchase price of raw water and does not account for treatment and distribution costs.

The losses are also influenced by:

- Water Meters that under-record consumption
- Some areas receive an unmetered water supply and are charged a flat rate
- Meter Reading Inaccuracies and Meter Reading Estimates