

ANNEXURE “A1”: OVERVIEW OF OPERATING REVENUE AND EXPENDITURE PERFORMANCE FOR THE PERIOD JULY 2014 TO NOVEMBER 2014

Below is an analysis of the operating revenue and expenditure performance compared to the approved 2014/15 Budget.

	2014/15 Budget R'000	Actual for the year R'000	% of Budget
OPERATING REVENUE			
Property Rates	1,373,533	690,713	50.3
Sale of Electricity	3,182,151	1,478,276	46.5
Sale of Water	558,220	266,866	47.8
Refuse Charges	200,068	101,397	50.7
Sewerage Charges	384,587	186,703	48.5
Total Service Charges	4,325,026	2,033,242	47.0
Rent of Facilities and Equipment	22,327	8,544	38.3
Interest Earned – External Investments	65,792	30,395	46.2
Interest Earned – Outstanding Debtors	182,999	70,866	38.7
Fines	36,836	6,018	16.3
Licenses and Permits	11,365	4,869	42.8
Income for Agency Services	1,575	1,114	70.7
Grants & Subsidies Received - Operating	1,340,739	737,954	55.0
Other Revenue	759,395	457,533	60.2
Gains on Disposal of PPE		5	
Total Direct Operating Revenue	8,119,588	4,041,255	49.8
OPERATING EXPENDITURE			
Employee Related Costs	2,196,693	1,017,587	46.3
Remuneration of Councillors	60,976	27,433	45.0
Bad Debts	341,949	118,965	34.8
Depreciation	862,509	431,258	50.0
Repairs and Maintenance – Municipal Assets	607,474	201,337	33.1
Interest Expense – External Borrowings	179,731	44,564	24.8
Purchase of Electricity	2,294,035	1,227,295	53.5
Purchase of Water	92,948	44,384	47.8
Total Bulk Purchases	2,386,983	1,271,679	53.3
Contracted Services	374,837	147,857	39.4
Grants & Subsidies Paid	375,659	170,104	45.2
General Expenses – Other	919,578	535,147	58.2
Total Direct Operating Expenditure	8,306,387	3,965,931	47.7
Surplus/ Deficit	(186,799)	75,324	

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

The statement of financial performance indicates a surplus of approximately 75.3 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

In order to enhance the income derived from this revenue source market related rentals should be charged relating to all Council's properties. A report in this regard was submitted to Mayoral Committee and included in the agenda of 16/10/2013. It is evident that the performance in respect of the rental of facilities has been disappointing with another opportunity being lost to enhance the revenue base and cash flow of the municipality.

Interest Earned – External Investments

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

Interest Earned – Outstanding Debtors

Interest is influenced by the extent of outstanding debtors.

Fines

The revenue from traffic fines for the period July 2014 to December 2014 of R3.45 million is below the projected level of R17.02 million. The shortfall as at 31 December 2014 was approximately **R13.57 million** in respect of Traffic Fines. It is evident that the collection of fines requires improved effort by the Safety and Security Directorate. In this regard, Council resolved on 29 May 2014 that: - The Executive Director: Safety and Security report on a strategy by 30 May 2014 to collect outstanding traffic fines, for immediate implementation

A strategy was presented to the B&T Standing Committee, at its meeting held on 15 May 2014.

The low collection of fines is being influenced by the new traffic software program, not being operational timeously and the pending court case which is preventing new tenders from being issued.

Expenditure Variations:

Interest Expense – External Borrowings

The interest expense is in line with the Municipality's loan repayment obligations.

Bad Debts

Bad debts are written off upon Council's approval.

Bulk Purchases

Purchase of Electricity during the period July 2014 to December 2014 is more than anticipated in the 2014/15 Budget due to a 1.81% increase in the unit purchased compared to the corresponding period July 2013 to December 2013. However of concern is the fact that Electricity billed does not follow the same trend as electricity being purchased and appears to have shrunk rather than reflect a growth in revenue.

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 2014/15 Budget.

Directorate	Original Budget	Actual as at 30 November 2014	% of Budget
Budget & Treasury	2,156,620	582,505	27.0
Public Health	6,432,250	1,517,734	23.6
Human Settlements	2,488,470	461,062	18.5
Economic Development , Tourism and Agriculture	2,183,980	649,962	29.8
Sports, Recreation, Arts and Culture	25,043,790	7,248,903	28.9
Corporate Services	31,290,380	7,047,277	22.5
Rate and General: Infrastructure & Engineering	158,004,300	63,771,750	40.4
Water Services	155,285,970	51,020,263	32.9
Sanitation Services	157,607,930	46,288,660	29.4
Electricity and Energy	53,544,030	19,244,869	35.9
Executive and Council	2,953,330	168,401	5.7
Safety and Security	10,298,900	3,296,859	32.0
Strategic Programmes Directorate	183,660	38,922	21.2
Total	607,473,610	201,337,167	33.1

1.3.1 Electricity losses

Council resolved on 29 May 2014 that:-

The Executive Director: Electricity and Energy report on a strategy by 30 May 2014 to reduce electricity losses in the 2014/15 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.

The December 2014 results were not available at the time this report was drafted.

Electricity and Energy Losses for 2014/15 are as follows:

Description	2013/14	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total Accum to date
	R '000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	
Total Purchases Energy (kWh)	3,510,933	305,536	309,434	301,750	311,515	291,173	0	0	0	0	0	0	0	1,519,408
Total Sales Energy (kWh)	3,110,649	260,894	267,679	263,221	269,160	0259,276	0	0	0	0	0	0	0	1,320,230
Losses in Units	400,284	44,642	41,755	38,529	42,355	31,897	0	0	0	0	0	0	0	199,178
% losses or units not charged for	11.4%	14.61%	13.49%	12.28%	13.60%	10.95	0	0	0	0	0	0	0	13.11%
Technical losses in units	115,716	18,332	18,566	18,105	18,691	17,470	0	0	0	0	0	0	0	91,164
Non-Technical losses in units	132,460	26,310	23,189	20,424	23,665	14,427	0	0	0	0	0	0	0	108,013
Average Selling Price	0.62	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
Rand Value Technical Losses	248,176	12,466	12,625	12,311	12,710	11,880	0	0	0	0	0	0	0	61,992
Rand Value Non Technical Losses	132,460	17,891	15,768	13,888	16,092	9,910								73,449
Rand value of losses	248,176	30,356	28,393	26,199	28,802	21,690								135,441

- Electricity losses comprise of both Technical and Non Technical losses.
- Technical Losses are assumed to be at 6% and include electricity line losses that are unavoidable, Streetlights, High Mast lights and Traffic signals.
- Non Technical losses include theft by way of illegal connections, tampering etc
- The above table is calculated using the average selling price, so losses show the potential loss in income if the electricity were to be sold.

1.3.2 Water Losses

Council resolved on 29 May 2014 that:

The Executive Director: Infrastructure & Engineering report on a strategy by 30 May 2014 to reduce water losses, indicating the funding requirements and the potential associated benefits.

The Department of Water Affairs has issued a new template for calculating Water losses. The real losses for the month of November 2014 were 3,376 KI which represents 37.6%. The total real losses for the period July 2014 to November 2014 were 17,096 KI which represents an average loss of 40.7% over the period.

The December 2014 results were not available at the time this report was drafted.

Water Losses for 2014/15 are as follows:

Description	Total 2013/2014 '000	Jul '000	Aug '000	Sept '000	Oct '000	Nov '000	Dec '000	Jan '000	Feb '000	Mar '000	Apr '000	May '000	Jun '000	Total 2014/2015 '000
Total Purchases Water (kl) (SIV)	107,655	8,986	8,866	8,687	9,131	8,979	0	0	0	0	0	0	0	44,650
Total Sales Water (kl)/ Authorised Consumption	64,275	4,871	5,278	5,011	5,265	5,228	0	0	0	0	0	0	0	25,654
Losses in Units	43,380	4,115	3,588	3,676	3,865	3,751	0	0	0	0	0	0	0	18,996
% losses or units not charged for	40.3%	45.8%	40.5%	42.3%	42.3%	41.8	0	0	0	0	0	0	0	42.5%
Less Apparent Losses	4,338	412	359	368	387	375	0	0	0	0	0	0	0	1,900
Real Losses in Units Excluding Apparent Losses	39,043	3,704	3,230	3,308	3,479	3,376	0	0	0	0	0	0	0	17,096

Description	Total 2013/2014 '000	Jul '000	Aug '000	Sept '000	Oct '000	Nov '000	Dec '000	Jan '000	Feb '000	Mar '000	Apr '000	May '000	Jun '000	Total 2014/2015 '000
% Real Losses Excluding Apparent Losses	36.3%	41.2%	36.4%	38.1%	38.1%	37.6	0	0	0	0	0	0	0	40.7%
Average Price	R8.43	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44	R9.44
Rand Value Apparent Losses	36,569	3,889	3,388	3,470	3,649	3,540	0	0	0	0	0	0	0	17,936
Rand Value Real Losses	329,132	34,966	30,488	31,227	32,839	31,869	0	0	0	0	0	0	0	161,386

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.