

OVERVIEW OF OPERATING REVENUE AND EXPENDITURE PERFORMANCE FOR THE PERIOD DECEMBER 2016

Below is an analysis of the operating revenue and expenditure performance compared to the approved 2016/17 Operating Budget.

Description R'000	2016/17 Operating Budget	Actuals as at 31 December 2016	% of Budget
Revenue By Source			
Property rates	1,638,304	783,958	47.85%
Service charges - electricity revenue	3,736,584	1,919,735	51.38%
Service charges - water revenue	612,076	307,770	50.28%
Service charges - refuse revenue	161,097	58,796	36.50%
Service charges - sanitation revenue	478,263	203,293	42.51%
Total Service Charges	4,988,019	2,489,595	49.91%
Rental of facilities and equipment	23,755	11,555	48.64%
Interest earned - external investments	92,295	47,529	51.50%
Interest earned - outstanding debtors	168,865	88,966	52.68%
Fines	242,441	23,514	9.70%
Licences and permits	13,791	5,244	38.02%
Agency services	2,574	1,219	47.37%
Grants & Subsidies Received - Operating	1,385,051	634,747	45.83%
Other revenue	980,732	465,309	47.45%
Gains on disposal of PPE	30	—	0.00%
Total Direct Operating Revenue	9,535,857	4,551,635	47.73%
OPERATING EXPENDITURE			
Employee related costs	2,501,615	1,179,467	47.15%
Remuneration of councillors	67,716	30,851	45.56%
Debt impairment	423,346	460,501	108.78%
Depreciation & asset impairment	1,023,933	423,909	41.40%
Finance charges	158,019	70,708	44.75%
Purchases of Electricity	2,871,221	1,536,523	53.51%
Purchases of Water	119,875	39,905	33.29%
Bulk purchases	2,991,096	1,576,428	52.70%
Other materials	457,648	126,107	27.56%
Contracted services	525,974	175,310	33.33%
Transfers and grants	73,469	30,406	41.39%
Other expenditure	1,280,666	376,006	29.36%
Loss on disposal of PPE		(1)	-
Total Expenditure	9,503,483	4,449,691	46.82%
Surplus/(Deficit)	32,375	101,944	

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

The statement of financial performance indicates a surplus of approximately R101.94 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 of July 2016 to December 2016 amounted to R11.555 million or 48.64% of the 2016/17 Operating Budget for Rental of Facilities and Equipment of R23.76 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.

The following has impacted on the interest earned:

- High level of unspent conditional DORA grants – IPTS
- Higher interest rate than anticipated in the original budget
- Unacceptable level of Housing Top Structures bridge-funding – As at 31 December 2016 it was R209.874 million
- The average collection rate of 92.12% for the twelve month period ending on 31 December 2016 is well below the budgeted 94% This represents an under collection of approximately R100 million for the period July 2016 to December 2016.
- Non-payment of full account by high energy users is detrimental to the sustainability of the NMBM cash flow as well as debt collection ratio.

Interest Earned – Outstanding Debtors

It is important to note that the municipality in terms of GRAP reflect all revenue raised and therefore billed to consumers. However only a low percentage interest earned on outstanding debtors is converted into cash for the following reasons:-

- Long outstanding consumer debtors attract the bulk of the interest raised, but is considered to be doubtful debts and are then eventually written off as bad debts
- Collection strategies to collect long outstanding debt also more than often provide for the write off of the interest raised portions of outstanding debt
- **The “practice” of writing off all ATTP debt on accounts older than 90 days. This is a bad practice as it creates an open cheque environment. Why will I pay any accounts for services used above the free services levels if I know that it will be written off in 90 days’ time whilst I am classified as indigent ATTP consumer!**
- The ATTP (Indigent) Policy adopted by Council in the 2015/16 Financial year resulted in a major write-off of debt. Therefore interest raised was written-off and will not realise any cash inflow to the Municipality.

Fines

Safety and Security Directorate had provided for fines revenue amounting to R237.66 million for the 2016/17 Operating Budget. The amount of R237.66 million consists of three components namely cash to be received (R32.40 million), the asset impairment that reflect traffic fines that would not be recoverable from a historical trend perspective (R176.45) and the amount of traffic fines that is still considered to be recoverable (R28.81 million). The actual cash receipted for traffic fines for the period July 2016 to December 2016 amounted to R21.44 million or 66.18% of the 2016/17 Operating Budget from a cash flow perspective. From a non-cash flow perspective only 15.58% of the total 2016/17 Operating Budgets for Fines revenue has been received in cash. From a projected cash flow perspective the collection of traffic fines indicates an improvement compared to the last two years.

Licences and Permits

The revenue earned for Drivers Licence Card Conversion amounted to R4.459 million representing only 38.57% of the 2016/17 Operating Budget of R11.56 million. The Safety and Security Directorate has indicated that due to legislation that does not specify where card conversions must take place and due to such services also being provided by neighbouring municipalities this revenue stream is not maximised and performs below the budgeted levels. The adjustments budget will have to be adjusted downwards to reflect the real anticipated revenue. However reductions in expenditure will also be required to offset the reduction in revenue projected to ensure a balanced and funded budget.

Grants and Subsidies received

The Grants and subsidies received was due to the Equitable Share amounting to R533.81 million and the Housing Top Structures amounting to R40.49 million. The E-Share was short paid by National Treasury in the amount of approximately R64.7 million to off-set unspent grants that were disallowed to be rolled over from the 2015/16 financial year to the 2016/17 financial year.

Council must be aware that about R64.7 million of unspent conditional grants were not approved by National Treasury to be rolled over from 2015/16 to 2016/17 financial year. The conditional grants affected are (i) IPTS or Public transport Network grants – R56.4 million (I&E), (ii) Human Settlements Capacity Grant (Human Settlements) – R7.8 million, and (iii) Infrastructure Skills Development Grant (E&E) – R 577 thousand). This matter was reported to the Budget and Treasury Portfolio Committee of October 2016.

The replica effect of this situation is the fact that National Treasury has already withheld the equivalent amount of around R64.7 million from the quarterly tranche of December 2016, meaning that the amount has been taken away from the available funding source of the budget and that will impact the budget position and will impact the projects, a threat to service delivery.

Expenditure Variations:

Employee related costs

The spending level is only at 47.15%. It is however anticipated that the saving of R71.34 million will decrease as the current process of filling critical vacancies are implemented.

Bad Debts

Bad debts are written off upon Council's approval. The actual figure is influenced by the arrear debt write-offs in ATTP consumers in terms of the approved Indigent Policy allowing all consumers being the owner of property valued at R100,000 and lower to automatically qualify for ATTP subsidy and write-off of arrear debts. **At 31 December 2016 debt qualifying for write-off was approximately R570.43 million (VAT Incl.) Therefore the budget has already been fully spent and exceeded. . The extent of the current write-off of arrear debt in respect of ATTP consumers will ensure that the Municipality will not be able to submit a surplus 2016/17 Adjustments Budget.** Please refer to Agenda and Annexure 5A for more information.

Bulk Purchases

The purchase of electricity for the period July 2016 to December 2016 is at 53.51% compared to the 2016/17 Operating Budget. It is important to note that July and August 2016 represent two of the three high season electricity tariff months and therefore the higher expenditure level. There is a risk that the current trend will result in an overspending of bulk purchases at year end and therefore an increase in electricity bulk purchases should be considered when compiling the 2016/17 Adjustments Budget. The increase in the electricity losses experienced to date increases the risk of overspending of the bulk purchases budget.

Finance Charges

The expenditure is due to the timing of payments due in accordance with the loan schedules.

Repairs and Maintenance

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

Item Code	Description	Budget	Actual	% spent
0444	Buildings	26,181,940	8,028,146	30.66
1231	Meters	14,984,700	1,404,892	9.38
0471	Motor vehicles	28,844,926	1,913,437	6.63
1302	Pipelines	25,614,540	5,354,708	20.90
0476	Plant and Machinery	48,051,280	9,858,195	20.52
1238	Sewers and Outfalls	63,193,310	5,775,626	9.14
4371	Leaks - Indigent	9,766,850	8,456,795	86.59
5803	Leak Detection	14,652,530	15,833,582	108.06
2528	Planned Maintenance	17,002,350	2,280,271	13.41
2006	Reconditioning Water Meters	18,642,850	17,859	0.01

Spending patterns is low in line with the annual trend. However expenditure on repairs and maintenance of water leaks is high.

General Expenses

The major under expenditure is the Housing Top Structures. Please also note that for general expenditure, repairs and maintenance and contracted services approximately 5 months of expenditure is reflected due to payment of invoices 30 days from the day the invoice was received. Also some of the expenditure incurred may not have been charged out from suspense votes.

Item Code	Description	Budget	Actual	% spent
4643	Top Structures for Houses	517,128,000	39,886,646	7.71
0122	Petrol, Diesel and Paraffin	71,077,710	24,347,908	34.26
6239	Metro Police Operating Costs	20,000,000	22,750	0.10
various	ATTP Write Off - various	0	31,935,166	
6001	Unauthorised Expenditure – no budget	0	9,052,536	
4797	Experiential Learning	1,100,000	7,376,240	670.57
6218	Chippa United Agreement	13,250,000	0	0.00
0151	Audit Fees: Auditor General	11,188,530	9,685,974	86.57
0365	Communication Equipment and Telephone	24,344,860	8,931,772	36.69
5729	Youth Programmes	8,100,000	4,050,000	0.00

Electricity losses

The anticipated electricity loss, for December 2016, amounts to R16.87 million or 12.45% (Table Electricity A). It is clear that the current strategies and the use of a service provider had not delivered the required results to materially reduce electricity losses and to reduce the bulk purchases costs. The electricity losses were 9.93%, 17.96% and 12.45% for October 2016, November 2016 and December 2016 respectively. The average electricity losses for the period July 2016 to December 2016 was 13.54%. The 12th month average electricity losses calculated over the period January 2016 to December 2016 reflects an increase in the percentage losses from 12.68% as at June 2016 to 12.93% as at December 2016 (Table Electricity B).

It is unfortunate that the highest percentage losses per month are always incurred during the high season tariff months namely July and August which impacts materially on the value of electricity losses.

The tariff used to calculate the loss is based on the bulk purchase price and excludes distribution and administration costs.

Table Electricity A: Electricity and Energy Losses for 2016/17 are as follows:

Description R'000	2014/15	2015/16	Jul 2016	Aug 2016	Sep 2016	Oct 2016	Nov 2016	Dec 2016	Total Accum to date 2016/17
Total Purchases Energy (kWh)	3,538,164	3,591,078	319,559	303,856	299,222	294,547	299,620	262,735	1,779,539
Total Sales Energy (kWh)	3,054,103	3,086,652	264,844	260,290	260,039	261,212	241,700	225,943	1,514,030
Unbilled Energy (kWh)	484,061	504,426	54,714	43,566	39,183	33,335	57,919	36,792	265,510
Street Light and traffic lights (kWh)	49,122	49,122	4,094	4,094	4,094	4,094	4,094	4,094	24,561
Energy Loss (kWh)	434,939	455,304	50,621	39,472	35,089	29,241	53,826	32,698	240,949
% Total Losses	12.29%	12.68%	15.84%	12.99%	11.73%	9.93%	17.96%	12.45%	13.54%
Technical Losses in units (kWh)	212,290	215,465	19,174	18,231	17,953	17,673	17,977	15,764	106,772
Non-Technical Losses in units (kWh)	222,649	239,839	31,448	21,241	17,136	11,568	35,849	16,934	134,176
Average Purchase Price	0.56	0.623	0.967	0.997	0.572	0.561	0.571	0.516	0.623
Rand Value - Technical Losses	116,239	134,324	18,548	18,178	10,265	9,922	10,257	8,132	75,302
Rand Value - Non Technical Losses	128,136	156,776	30,422	21,179	9,798	6,495	20,455	8,735	97,083
Rand Value - Total Losses	244,375	291,101	48,970	39,357	20,063	16,416	30,712	16,867	172,386

- 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.

The Table Electricity B reflects average electricity losses for the period January 2016 to December 2016

Description	Jan (^{'000})	Feb (^{'000})	Mar (^{'000})	Apr (^{'000})	May (^{'000})	June (^{'000})	Jul (^{'000})	Aug (^{'000})	Sep (^{'000})	Oct (^{'000})	Nov (^{'000})	Dec (^{'000})	Total Accum to date
Total Purchases Energy (kWh)	295,023	292,272	300,107	294,940	307,841	305,443	319,559	303,856	299,222	294,547	299,620	262,735	3,575,165
Total Sales Energy (kWh)	251,106	260,229	261,766	256,339	265,836	259,630	265,022	258,196	256,747	261,212	241,700	225,943	3,063,726
Unbilled Energy (kWh)	43,916	32,043	38,341	38,601	42,005	45,813	54,537	45,660	42,475	33,335	57,919	36,792	511,437
Street Light and traffic lights (kWh)	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	49,122
Energy Loss (kWh)	39,823	27,949	34,248	34,508	37,912	41,720	50,444	41,567	38,382	29,241	53,826	32,698	462,318
% Total Losses	13.50%	9.56%	11.41%	11.70%	12.32%	13.66%	15.79%	13.68%	12.83%	9.93%	17.96%	12.45%	12.93%
Technical Losses in units (kWh)	17,701	17,536	18,006	17,696	18,470	18,327	19,174	18,231	17,953	17,673	17,977	15,764	214,508
Non-Technical Losses in units (kWh)	22,122	10,413	16,241	16,811	19,441	23,393	31,270	23,335	20,428	11,568	35,849	16,934	247,805

Water Losses

The real losses for the month of December 2016 were 3,907 KI which represents 42.8%. It is clear that the current strategies implemented to reduce water losses have not yet yielded the appropriate results. The average Water loss for the period July 2016 to December 2016 appears to be 10,052 KI or 37.4% as indicated by the consultants (Table Water A). However if the adjustments that were processed during July 2016 are eliminated the actual water loss for July 2016 is 42.6% and for the period July 2016 to December 2016 the water loss would be 21,872 KI or 40.95% (Refer Table Water B). The average loss for the period January 2016 to December 2016 appears to be 40.4% after eliminating the adjustments made during July 2016 (Refer Table Water C). The impact of the renewed strategy to repair water leaks will become clearer during the second quarter of this financial year.

Upon investigation as to why July 2016 indicated water losses at only 21.68%, it was discovered that the following adjustments had been made during July 2016, whilst the real water loss was 42.6% for July 2016:

There were a number of accounts that has been estimated for a while that when read resulted in the adjustments:

- Jubilee Hotel: Billed 999932 KI, meter could be faulty as it appears as if meter is actually reversing
- Livingston Hospital: Billed 307196KI, meter readings was estimated since meter was installed in September 2011
- Coega Zone 2: Billed 440530KI, meter readings was estimated since meter was installed in April 2015
- Coega Zone1A: Billed 183090KI, meter readings estimated since meter was installed in April 2015
- Coega Zone 3: Billed 220280KI, meter reading estimations since June 2014

The consultants, assisting the Revenue Sub-directorate of the Budget and Treasury Directorate, is in the process of identifying water meters that are not reflected on the system and therefore identifying consumers that are not billed and where no revenue was raised. A focus is also placed to identify meters that have been estimated for a long period of time such as indicated in the examples above. The outcome of allowing such meters with high usage not to be read is that revenue are not raised in accordance with actual water usage. This further indicates that if all meters were read the true water losses percentage would have been materially lower. It is clear that all business meters should be read and not estimated.

Table Water A:

Water Losses for 2016/17 are as follows:

Description	Total 2015/2016	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Total 2016/2017
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Total Purchases Water (kl) (SM) - Treated Water	109,876	9,001	9,245	8,640	8,824	8,559	9,138							53,408
Total Sales Water (kl) / Authorised Consumption - Revenue Water	62,139	7,050	4,935	4,849	5,641	5,716	5,231							33,422
Losses in Units - Non-revenue Water	47,736	1,951	4,311	3,791	3,183	2,844	3,907	0	0	0	0	0	0	19,986
% losses or units not charged for	43.45%	21.68%	46.62%	43.88%	36.07%	33.22%	42.75%							37.42%
Less Apparent Losses	45,539	301	701	615	511	454	633							3,216
Real Losses in Units Excluding Apparent Losses	40,985	1,650	3,609	3,176	2,672	2,390	3,274	0	0	0	0	0	0	16,770
% Real Losses Excluding Apparent Losses	37.30%	18.33%	39.04%	36.76%	30.28%	27.92%	35.82%							31.40%
Physical / Real losses	38,788	1,470	3,424	3,003	2,495	2,218	3,091							15,702
% Real Losses Excluding Apparent Losses	35.30%	16.33%	37.04%	34.76%	28.28%	25.92%	33.82%							29.40%
Average Price	R 3.73	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21
Rand Value Real Losses	178,009	8,224	18,168	15,978	13,415	11,987	16,466							84,238

Please note that the tariff used is only based on the average purchase price of treated water and excludes 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

Table Water B

Description	Total 2015/2016	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Total 2016/2017
	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000	'000
Total Purchases Water (kl) (SIV) - Treated Water	109,876	9,001	9,245	8,640	8,824	8,559	9,138							53,408
Total Sales Water (kl) / Authorised Consumption - Revenue Water	62,139	5,164	4,935	4,849	5,641	5,716	5,231							31,536
Losses in Units - Non-revenue Water	47,736	3,838	4,311	3,791	3,183	2,844	3,907	0	0	0	0	0	0	21,872
% losses or units not charged for	43.45%	42.64%	46.62%	43.88%	36.07%	33.22%	42.75%							40.95%
Less Apparent Losses	45,539	622	701	615	511	454	633							3,537
Real Losses in Units Excluding Apparent Losses	40,985	3,216	3,609	3,176	2,672	2,390	3,274	0	0	0	0	0	0	18,336
% Real Losses Excluding Apparent Losses	37.30%	35.73%	39.04%	36.76%	30.28%	27.92%	35.82%							34.33%
Physical / Real losses	38,788	3,036	3,424	3,003	2,495	2,218	3,091							17,267
% Real Losses Excluding Apparent Losses	35.30%	33.73%	37.04%	34.76%	28.28%	25.92%	33.82%							32.33%
Average Price	R 3.73	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21	R 4.21
Rand Value Real Losses	178,009	16,176	18,168	15,978	13,415	11,987	16,466							92,189

Table Water C: The table reflects average water losses for the period January 2016 to December 2016

Financial Year	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Annual
Volume Treated (kℓ)	10,100,666	8,982,106	9,309,980	8,779,181	8,847,132	8,385,021	9,001,274	9,245,484	8,639,798	8,824,081	8,559,496	9,137,986	107,812,205
Revenue Volume (kℓ)	5,412,696	5,653,563	5,301,833	5,656,970	5,305,151	5,412,005	5,163,574	4,934,952	4,849,062	5,641,362	5,715,625	5,231,287	64,278,080
Revenue Water (%)	53.6%	62.9%	56.9%	64.4%	60.0%	64.5%	57.4%	53.4%	56.1%	63.9%	66.8%	57.2%	59.6%
NRW volume (kℓ)	4,687,970	3,328,543	4,008,147	3,122,211	3,541,981	2,973,016	3,837,700	4,310,532	3,790,736	3,182,719	2,843,871	3,906,699	43,534,125
NRW (%)	46.4%	37.1%	43.1%	35.6%	40.0%	35.5%	42.6%	46.6%	43.9%	36.1%	33.2%	42.8%	40.4%
Real Losses (Mℓ)	4,037,361	2,834,010	3,439,753	2,651,964	3,028,534	2,524,784	3,035,870	3,424,267	3,002,890	2,495,177	2,218,325	3,090,870	35,783,805
Real Losses (%)	40.0%	31.6%	36.9%	30.2%	34.2%	30.1%	33.7%	37.0%	34.8%	28.3%	25.9%	33.8%	33.2%
Water Losses (Mℓ)	4,485,956	3,148,900	3,821,948	2,946,627	3,365,038	2,805,316	3,657,674	4,125,623	3,617,940	3,006,237	2,672,681	3,723,940	41,377,880
Water Losses (%)	44%	35%	41%	34%	38%	33%	41%	45%	42%	34%	31%	41%	38.4%