

ITEM 19/2019
ADJUSTMENT BUDGET FOR 2018/2019 FINANCIAL YEAR

SPECIAL COUNCIL MEETING: 26 FEBRUARY 2019

1. PURPOSE

The purpose of this report is to submit the 2018/19 adjustment budget to Council for approval in terms of section 28 of the Municipal Finance Management Act.

2. BACKGROUND

Council is authorized as per **section 28 of the MFMA** to revise an approved annual budget through an adjustment budget.

Section 28 (2) reads as follows:

An adjustment budget-

(a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;

(b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;

(c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;

(d) may authorise the utilisation of projected savings in one vote towards spending under another vote;

(e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;

(f) may correct any errors in the annual budget; and

(g) may provide for any other expenditure within a prescribed framework.

(3) An adjustments budget must be in a prescribed form.

(4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.

(5) When an adjustments budget is tabled, it must be accompanied by—

(a) an explanation how the adjustments budget affects the annual budget;

- (b) a motivation of any material changes to the annual budget;
 - (c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
 - (d) any other supporting documentation that may be prescribed.
- (6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

(7) Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.

3. DISCUSSION

A mid-year report was submitted to Council in terms of section 72 of the Municipal Finance Management Act on the 24th January 2019 and Council resolved that the budget of 2018/2019 must be adjusted after taking into consideration the budget and performance assessment as at mid-year.

The following reasons were identified during the approval of the mid-year budget and performance assessment review and below are the reasons for the proposed adjustment for the 2018/19 budget:

- The increase in electricity purchase and electricity sold.
- The variances on water sold and purchased.
- Various votes that over and underperformed necessitated adjustments.
- The adjustment to the revised capital projects.
- The under collection of service charges

The table below is the proposed adjustment budget for the 2018/19 financial year and each line item is discussed separately underneath the table.

MEDIUM TERM INCOME AND EXPENDITURE FRAMEWORK 2018/2019 TO 2020/2021							
	Audited 2017/2018	Budget 2018/19	Adjustment budget proposal 2018/2019	(Increase) / Decrease 2018/2019	Percentage Increase	Budget 2019/2020	Budget 2020/2021
REVENUE							
Assessment Rates	(168,472,005)	(185,385,772)	(181,609,509)	3,776,263	-2.04%	(193,414,127)	(205,018,975)
Interest on Assessment Rates							
	(168,472,005)	(185,385,772)	(181,609,509)	3,776,263	-2.04%	(193,414,127)	(205,018,975)
Electricity Sales	(246,920,560)	(273,706,769)	(262,202,174)	11,504,595	-4.20%	(275,312,283)	(291,831,020)
Water Sales	(265,043,588)	(294,017,265)	(324,119,134)	(30,101,869)	10.24%	(350,048,665)	(371,051,585)
Refuse Removal	(48,655,985)	(29,090,307)	(55,076,232)	(25,985,924)	89.33%	(59,482,330)	(63,051,270)
Sewerage	(62,856,951)	(58,476,859)	(66,673,660)	(8,196,800)	14.02%	(72,007,552)	(76,328,006)
Other levies	(1,240,503)		0	0		0	0
Sub Total	(793,189,592)	(840,676,974)	(889,680,709)	(49,003,735)	5.83%	(950,264,958)	(1,007,280,855)
Grants	(372,535,999)	(227,399,000)	(227,399,000)	0	0.00%	(222,993,000)	(242,913,000)
Interest on Investments	(15,235,972)	(6,500,000)	(8,870,504)	(2,370,504)	36.47%	(2,785,606)	(2,952,742)
Interest earned - outstanding debtors	(89,587,405)	(93,004,400)	(106,893,064)	(13,888,664)	14.93%	(113,306,648)	(120,105,047)
Traffic and Licensing	(10,607,468)	(16,397,000)	(16,397,000)	0	0.00%	(17,380,820)	(18,423,669)
Rental Fixed Properties	(1,103,697)	(2,339,685)	(1,275,410)	1,064,275	-45.49%	(1,351,935)	(1,433,051)
Fines Income	(39,585,474)	(10,835,638)	(6,615,490)	4,220,148	-38.95%	(7,012,419)	(7,433,165)
Other Income	(8,320,053)	(6,225,899)	(11,633,381)	(5,407,482)	86.85%	(12,331,384)	(13,071,267)
Gains on Disposal of Assets	0		(355,400)	(355,400)		(376,724)	(399,327)
Total Revenue	(1,330,165,660)	(1,203,378,596)	(1,268,764,558)	(65,385,962)	5.43%	(1,327,426,769)	(1,413,612,795)
Government Grant and Subsidies	(178,023,171)	(202,838,000)	(202,838,000)	0	0.00%	(120,475,000)	(119,699,000)
Total Revenue	(1,508,188,831)	(1,406,216,596)	(1,471,602,558)	(65,385,962)	4.65%	(1,447,901,769)	(1,533,311,795)
	Budget 2016/2017	Adjustment Budget 2016/17	Budget 2018/2019	Increase / (Decrease) 2018/2019	Percentage Increase	Budget 2018/2019	Budget 2019/2020
EXPENDITURE							
Salaries and Allowances	327,449,987	380,432,980	345,473,042	(34,959,938)	-9.19%	366,201,425	388,173,510
Remuneration Council	21,053,410	23,360,929	26,410,162	3,049,233	13.05%	27,994,772	29,674,458
Bulk Electricity Purchases	229,466,372	237,822,464	271,494,155	33,671,691	14.16%	285,068,863	299,322,306
Bulk Water Purchases	197,242,611	235,430,100	241,161,020	5,730,920	2.43%	260,453,902	281,290,214
General Expenses	87,076,242	59,949,922	72,903,553	12,953,631	21.61%	60,061,624	61,262,857
Transfer Depreciation	169,947,671	106,226,073	106,226,073	0	0.00%	106,226,073	106,226,073
Contracted Services	73,060,323	155,093,034	131,401,667	(23,691,367)	-15.28%	139,285,767	147,642,913
Other Materials		912,900	0	(912,900)	-100.00%	0	0
Interest and Redemption	31,643,222	22,600,000	33,343,396	10,743,396	47.54%	33,343,396	33,343,396
Contribution to Reserves	354,759,553	241,760,399	298,972,132	57,211,733	23.66%	285,079,487	302,184,256
Operational Grants	204,345	1,464,720	1,183,060	(281,660)	-19.23%	1,254,044	1,329,286
Total Expenditure	1,491,903,736	1,465,053,521	1,528,568,260	63,514,739	4.34%	1,564,969,352	1,650,449,269
Total Expenditure	1,491,903,736	1,465,053,521	1,528,568,260	63,514,739	0	1,564,969,352	1,650,449,269
Surplus (Deficit)	16,285,095	(58,836,925)	(56,965,702)	1,871,223	-3.18%	(117,067,582)	(117,137,474)
Deficit after capital receipts	(161,738,076)	(261,674,925)	(259,803,702)	1,871,223	(0)	(237,542,582)	(236,836,474)
Non cash items	169,947,671	106,226,073	106,226,073	0	0	106,226,073	106,226,073
Cash shortfall	8,209,595	(155,448,852)	(153,577,629)	1,871,223	(0)	(131,316,509)	(130,610,401)

The projected revenue will increase by 5.43% for the 2018/2019 financial year. This is as a result of the increase in Water consumption experienced as at mid-year and the subsequent increase in the Sewerage charges

It is projected that the expenditure budget for 2018/2019 will increase by 4.34% as a result of an increase in bulk electricity purchases and under collection of service

charges resulting in an increase in the provision for bad debt. Another expenditure item that must be provided for is the Bridge over rail in Khutsong as an application was declined to fund this project from mining town allocation and therefore the project will be funded for own revenue.

The proposed adjustment will result in a deficit of R259,804 Million for the 2018/2019 financial year and the deficit will be funded from prior year's accumulated surpluses and detailed below are explanations per vote.

1) Revenue

Property Rates

The adjustment of the property rates revenue budget is as a result of the underperformance of 2.04% underpinned by the increased rebates to pensioners.

The property rates projection is further affected by the dispute on the valuation of mining properties. As at 01 July 2012, the total valuation for the mines was R4.6 billion. The valuation appeal board reduced the valuation to R253m with the net effect that the total property rates recoverable were reduced to R18m. The municipal valuer immediately proceeded with the compilation of supplementary valuation 3 and due to the amendment of the Municipal Property Rates Act, the surface buildings and infrastructure was included. The total mines valuation based on Supplementary valuation 3 increased to R1.8 billion, generating approximately R60m property rates per annum.

The mining houses made certain proposals relating to the splitting of the immovable property, buildings and surface infrastructure to be valued with the mining rights which effectively enabled the municipality to significantly increase the existing value of R1, 8 billion on the SV3.

Due to the fact that for at least the next two and a half years, the total property rates recovered is still being offset against the refund due to the mining houses, it was agreed to reduce the existing SV3 property value in accordance with a particular agreement, pending the finalization of supplementary valuation 5 that is to be drafted in a particular format as agreed with the mining houses. Furthermore, the mining houses have agreed that the effective date for implementation of SV5 will be applied retrospectively to the implementation date of SV3, being 01 August 2015.

It was agreed that the new valuations will only be effective after the completion of the appeal process and is anticipated that the process will be completed by June 2019. This is subject to the appointment of the Valuation appeal board. The supplementary valuation roll 6 was compiled and finalised and thereafter advertised for inspection by the mines. The outstanding matter to complete the process is that the MEC for CoGTA must appoint a new valuation appeal board. Correspondence has been received from the office of the MEC of the intention to establish and appoint the valuation appeal board members.

Service Charges: Electricity

The total billing as at mid-year for electricity service charges amounted to R131,101 Million as compared to R126,455 in 2017/2018 and R139,724 Million during 2016/2017. This is 47.90% of the original budget of 2018/2019 and represents a shortfall of R5.8 Million for the six months under review as reflected in the table below. Therefore this necessitates a decrease in the projected electricity sales by 4.20% and hence a downward adjustment.

	2017/2018	2018/2019	Increase (Decrease)	Percentage
Electricity Purchased (units)	117,217,074	129,969,923	12,752,849	10.88%
Electricity Sold (units)	80,292,924	75,444,508	(4,848,416)	-6.04%

The bulk electricity purchases as at mid-year reflected a 10.88% increase in electricity units and a 6.04% decrease in electricity sales. This is as a result of by-passed prepaid meters that are currently in excess of 10800 meters. The average loss for the six months is 41.95% as at December 2018 compared to 33.86% for the 2017/2018 financial year. The total loss per month can be estimated to approximately R8.8 million based on the assumption of 600 units or R105.2 million for the financial year. Arrear recovery as stipulated in the approved credit control policy cannot be fully effected due to the increased number of tampered prepaid electricity meters.

ELECTRICITY LOSSESS JULY 2018 TO DECEMBER 2018

	UNITS SOLD	UNITS PURCHASED	% SOLD	% LOSS
Jul-18	12,842,537	27,496,406	46.71	53.29
Aug-18	15,379,795	24,131,244	63.73	36.27
Sep-18	11,838,723	20,844,400	56.80	43.20
Oct-18	12,365,624	19,834,675	62.34	37.66
Nov-18	12,195,057	19,358,147	63.00	37.00
Dec-18	10,822,771	18,305,052	59.12	40.88
AVERAGE	75,444,508	129,969,923	58.05	41.95

Service Charges: Water

The total billing as at mid-year for water service charges amounted to R162.060 Million which translates to an over performance of 5.12% when compared to the original budget projections as reflected in the table below. This is attributed to domestic consumer consumption which has increased by 5.59% as at mid-year.

	2017/2018	2018/2019	Increase	Percentage
Water Purchased (units)	7,299,687	7,482,621	182,934	2.51%
Water Sold (units)	3,748,687	3,958,356	209,669	5.59%

As part of the tasks conducted through the Turnaround Priority Plan, Bulk Water Meters were installed in the Kokosi Extension 6 development to measure water consumption. With effect from 31 January 2018, the consumption readings has been included into the billing system and the department responsible for the development will be liable for payment thereof. The billing data for the verification period in December amount to 6,964Kl.

An average of 21 000 families in the Merafong informal area are receiving water through stand pipes and water tankers. If calculated at an average of 6kl consumption per family, per month it calculates to 12.6 ml of non-metered consumption that is written off as losses. As from Q3 these consumption figures shall be incorporated into the calculation methodology of Water Losses. This consumption accounts for an average of 10% of the declared official Water Losses. The average unaccounted for water stands at 47.10% compared to 47.06% for the 2017/2018 financial year.

WATER LOSSES 2018/19

	UNITS SOLD	UNITS PURCHASED	% SOLD	% LOSS
Jul-18	596,659	1,113,009	53.61	46.39
Aug-18	588,910	1,325,685	44.42	55.58
Sep-18	666,923	1,215,164	54.88	45.12
Oct-18	694,378	1,258,321	55.18	44.82
Nov-18	704,282	1,248,602	56.41	43.59
Dec-18	707,204	1,321,840	53.50	46.50
AVERAGE	3,958,356.00	7,482,621.00	52.90	47.10

Service Charges: Sewerage Charges

The billing for sewerage charges has increased by 44.66% as at mid-year and this is directly linked to water usage. Domestic water usage has increased and it is proposed that the budget be adjusted with 14.02%.

Service Charges: Refuse removal

The performance against the projected income for refuse removal as at mid-year is 7.01% higher than anticipated. The total billing as at mid-year was R33.337 Million against budgeted the annual projected revenue of R29,090 Million. As a result, it is proposed that an adjustment of 89.33% be effected in the 2018/19 budget.

Rental of Facilities and Equipment

The performance of this revenue stream is of a great concern as only 27.26% of the mid-year budget was received and this is the main reason for the proposal to adjust the projected income for rental of facilities. The status of council's facilities might have an impact on the usage of the facilities and the proposal is to reduce the projections with 45.49%.

Interest Earned: External Investments

Grant funding for capital projects is being invested in a daily call account in order to ensure that the funds are accessible immediately when needed. The amount budgeted for the year has been exceeded by 18.23% as at mid-year and proposal is to increase the projection with 36.47%.

Interest Earned: Outstanding Debtors

The low collection rate and the increase of outstanding debtors has resulted in an increased levying on interest on arrear accounts by 7.47% on the total budgeted amount as at mid-year. Proposal on the adjustment budget is to increase the projected income for interest earned from outstanding debtors with 14.39% although the likelihood of the recovery is slim.

Fines

The collection on traffic fines has decreased as at mid-year and only 19.47% of the projected revenue was collected. It is therefore proposed that an adjustment of a reduction of 38.95% be effected.

Total Revenue

Based on the factors discussed above, it is therefore proposed that Council considers an adjustment budget as can be deduced from the above discussions. The proposal on the total revenue budget is to increase the revenue with 5.43% to a total budget amount of R1 268 764 558 against the original budget of R1 203 378 596.

2) **OPERATING EXPENDITURE**

Operating Expenditure

Salaries

The total expenditure for salaries as at mid-year was R157.717 Million which is 9.54% less than the projection. During the period under review the position of Manager Water and Senior Engineering Technician were filled in order to address the service delivery challenges that the municipality is experiencing. This is consistent with the decision that was taken during the 2017/18 financial year to prioritise the Infrastructure department. Other vacancies could not be filled due to cash flow constraints.

Funded vacant positions were prioritized and only urgent vacant positions effecting service delivery will be filled during the latter part of 2018/2019. Strict controls on overtime are continuously being implemented and as a result overtime expenditure has reduced by 12.68% than the budgeted amount.

Concurrence was granted by the Minister of CoGTA for five senior managers in August 2018 and concurrence for the other two senior managers is still outstanding. Taking into account the cash flow constraints of the municipality, the implementation was effected in August 2018 excluding the back-pay for the period November 2017 until July 2018.

Another component affecting the expenditure on salaries is the leave encashment which took place during the period December 2018 until May 2019. This was as a result of prior commitment made as well as the current approved leave policy provisions. In addition the expenditure for the Post retirement benefit obligation will only be known at the end of the financial year. The salaries and allowances has been reduced with R34.9m by reducing the vacant positions that will not be filled by 30 June 2019.

Councillors Remuneration

The expenditure on Councillors remuneration was R12.024 Million for the six months ended December 2018.

The Gazette on the Remuneration of Office Bearers Act for 2018/2019 was received and approved by council on the 8th January 2019. Thereafter an application for concurrence from the MEC of CoGTA was submitted and approved. The financial implications for implementing the upper limits, taking into account the back payment for the period July 2018 until December 2018 was R395 thousand and the expenditure was incurred in January 2019. In addition the increase in cellphone allowances that was not effected on the date of implementation and the decision to pay it as back pay had resulted in that the original budget must be adjusted.

Bulk Purchases: Electricity

The expenditure on electricity purchases for the period under review is R148,662 Million which is 12.51% more than the budgeted amount. The electricity purchases represented in units is 10.88% more for the six months under review and the electricity sales has reduced with 6.04% units.

The average loss for the six months is 41.95% as at December 2018 compared to 33.86% for the 2017/2018 financial year. This is as a result of the by-passed pre-paid meters that are currently in excess of 10800 meters. The over spending on bulk purchases requires an adjustment of additional R33.6m in the 2018/2019 adjustment budget.

Bulk Purchases: Water

The expenditure on water sales as at mid-year is R120,581 Million which is an over spending of 1.22%.

The proposal on the adjustment budget is to rectify the expenditure on bulk water purchases by increasing the projection with 2.43%.

Contracted Services

Expenditure on contracted services is R34.497 Million as at mid-year and this is 27.76% below the budgeted amount. The adjustment budget has taken into account the actual contractual obligations and a proposal is to reduce the expenditure with 15.28%.

Finance Charges

Interest on overdue creditors accounts have increased mainly due to the outstanding Eskom account and other contractual obligations.

This expenditure is deemed fruitless and wasteful and the value of the interest paid on arrear accounts as at mid-year is R14.261 Million compared to R10.764 Million for the first six months of 2017/2018. Due to the current cash flow constraints, this expenditure is unavoidable.

A total amount of R16.672 Million was spent for the six months under review and this includes the interest paid on external loans. The proposal is to adjust the budget and increase the projection with 47.54%.

Transfer to Reserves (Provision for Bad Debt)

The budgeted payment levels for the 2018/19 financial year is 75% and the average payment levels achieved for the past six months was 64.99% as reflected in the table below:

SIX MONTHS ENDING DECEMBER 2018				
	Billed	Received	SHORTFALL	PERCENTAGE
Carletonville	176,763,191	162,962,359	13,800,832	92.19%
Fochville	64,906,635	67,920,831	(3,014,196)	104.64%
Khutsong	33,008,670	3,039,595	29,969,075	9.21%
Greenspark	5,127,504	2,130,303	2,997,201	41.55%
Kokosi	35,529,941	8,063,488	27,466,453	22.69%
Khutsong South	32,941,624	3,942,365	28,999,259	11.97%
Wedela	29,063,654	13,135,023	15,928,631	45.19%
Blybank	7,097,516	4,491,039	2,606,477	63.28%
Wolverdiend	7,960,443	6,826,181	1,134,262	85.75%
Farms	149,396,323	79,576,372	69,819,951	53.27%
Merafong	541,795,500	352,087,556	189,707,944	64.99%

The disturbing culture of non-payment for municipal services prevailing in the municipal township areas is a significant cause for greater concern. This culture is spread to newly developed townships and this placed the financial wellbeing, viability and sustainability of the municipality at a huge risk. Implementation of credit control in all areas has been undertaken and some community members prevented the successful implementation.

Pre-paid electricity meters has been installed in most of the areas where payment levels are below the average of 64.99%. The majority of these meters are by-passed and therefore arrear recovery of 60/40 cannot be collected and as a result, an amount in excess of R60 Million has been lost.

Eleven debt collectors were appointed and a total of 20 326 accounts with a total value of R692 Million was handed over for collection as at mid-year. A total amount of R3.2 Million has been recovered through debt collection processes and the collection process will be continued in order to improve collection.

Serious financial constrains have been experienced during the past three years and this may be attributed to the liquidation of the Blyvooruitzicht mine and the negative outcome of the mines valuations which in total is about R840m.

In terms of section 55 of the Local Government Municipal Property Rates Act No 6 of 2004, any adjustments made to the valuation roll in terms of Section 69 takes effect on the effective date of the valuation roll, which was 1 July 2012. The amount that had to be reversed to the mines accounts were R318,404 Million. Sibanye Gold is offsetting the current rates against the refund owing to them which will be for at least the next two and a half years and their portion is R218,527 Million. It was agreed that the new valuations will only be effective after the completion of the appeal process and this is pending the appointment of the Valuation appeal board.

In compliance with the MFMA, Council is not allowed to increase tariffs during an adjustment budget. Expenditure has been reduced in order to avoid further cash flow difficulties as a result of the low payment for services. Unfortunately this is not sufficient and further reduction of expenditure will have serious effect on service delivery.

It has been proven that in the latter part of the financial year the payment levels increase and therefore it is anticipated that the payment levels will reach an average of 70%.

Government Grants and Subsidies

This vote refers to execution of capital projects funded from Government grants. Council has spent R72,797 Million and the receipts of the Equitable share and other operating grants. National Treasury has finalized the roll-over applications of the unspent conditional grants for 2017/2018 financial year and no proposed adjustment required.

Total Expenditure

The proposal on the total expenditure budget is to increase expenditure with 4.34% to a total budget amount of R1 528 568 260 against the original budget of R1 465 053 521.

3) Capital Expenditure

The table below is the proposed capital budget for the 2018/19 financial year which indicates an increase to the capital budget from R242m to R304m as a result of the funding for the disaster relief grant to a total of R47.4m.

CAPITAL BUDGET 2018/19 TO 2020/21									
Projects	2018-2019	Adjustment budget rollovers	Total	Actual Expenditure December 2018	Adjustment budget 02/2019	Adjustment Budget Final 2018-2019	2019-2020	2020-2021	Source of Funding
Roads and Stormwater									
Khutsong Roads and Stormwater	5,700,000		5,700,000	157,167		5,700,000		10,500,000	MIG
Kokosi Roads and Stormwater	938,331		938,331			938,331		5,460,000	MIG
Wedela Ext 3 Roads and Stormwater	6,000,000		6,000,000	328,247		6,000,000	4,251,312	6,790,000	MIG
Kokosi Ext 6 Construction of Roads	2,000,000		2,000,000			2,000,000			MIG
Upgrade of Access road to Carletonville Landfill Site			-				5,239,938		MIG
Access Road to Kokosi new WWTP			-					5,029,671	MIG
Bridge over rail Khutsong	15,300,000		15,300,000		(15,300,000)	14,300,000			Capital out of Revenue
			-						
Electricity									
Street Light Merafong Phase 3			-				8,470,000	13,155,204	MIG
Khutsong South Electrification Phase 7			-				8,000,000	12,800,000	Integrated National Electrification Programme (INEP)
Khutsong South electrification phase 6		132,516	132,516						Integrated National Electrification Programme (INEP)
Kokosi Ext 99 Electrification	6,000,000		6,000,000	4,822,465		6,000,000	3,200,000		Integrated National Electrification Programme (INEP)
Kokosi Ext 6 Electrification	10,000,000		10,000,000	6,597,141		10,000,000	8,000,000		Integrated National Electrification Programme (INEP)
Khutsong South Ext5/6 electrification			-		10,344,000	10,344,000			Human Settlements Development Grant (Mining Town)
			-						
Waste removal									
Construction of Carletonville Waste Management Depot	16,272,736		16,272,736	14,696,032		14,696,032			MIG
Rehabilitation of Rooipoot Landfill Site	1,100,000		1,100,000	3,030,792		3,030,792			MIG
			-						
Public Works									
Khutsong Multi-purpose centre		6,500,000	6,500,000	4,177,229		7,174,560			MIG
			-						
LED									
Informal Trading Area Carletonville Phas	3,673,917	(3,500,000)	173,917			-			MIG
			-						
Waste Water									
Welverdiend WWTP (Construction)			-				35,000,000	36,925,000	Water Services Infrastructure Grant
Sludge Drying Beds - Kokosi & Khutsong	16,006,116		16,006,116	8,994,956		16,006,116	20,000,000		MIG
Greenspark outfall sewer			-		10,220,000	10,220,000			Human Settlements Development Grant (Mining Town)
Linkage of the old outfall sewer line Kokosi ext7			-		5,000,000	5,000,000			Human Settlements Development Grant (Mining Town)
Khutsong Ext 2 (Skopas) Collapsed Sewer Lines			-			16,997,130			Disaster Relief Grant
Khutsong Mzwanzwa Street Outfall Sewer Pipeline Bypass			-			15,196,884			Disaster Relief Grant
Onyx Street Bulk Sewer Pipeline Replacement			-			4,233,095			Disaster Relief Grant
			-						
Sanitation									
Nil			-						
			-						
Water									
Replacement of Khutsong Reservoir	55,000,000	11,307,638	66,307,638	8,167,484		66,307,638			Water Services Infrastructure Grant
Khutsong North Water and Sewer Reticulation	10,000,000	(3,000,000)	7,000,000	2,050,174		6,145,269	25,000,000	25,540,425	MIG
Khut Ext 5/6 -Internal Sewces (753 Services Stands) (Phase 5)	52,380,436	(28,166,381)	24,214,055	19,552,405		24,214,055			Human Settlements Development Grant
Upgr of Existing Bulk Water Line and Pumpstation (Kokosi Ext 6)		3,766,245	3,766,245	292,527		3,766,245			Human Settlements Development Grant
Kokosi Ext 7 Bulk supply	21,336,000		21,336,000			21,336,000			Human Settlements Development Grant (Mining Town Allocation)
Pre-Paid meters	10,264,000		10,264,000		(10,264,000)				Human Settlements Development Grant (Mining Town Allocation)
Adatta Pipeline	20,000,000		20,000,000	222,599		20,000,000			Water Supply Infrastructure Grant
Khutsong Reservoir			-			2,541,928			Disaster Relief Grant
Carletonville Reservoir (007)			-			2,484,998			Disaster Relief Grant
Khutsong Water Tower (Chiawelo)			-			6,009,965			Disaster Relief Grant
			-						
Furniture, Fittingsand equipment	3,460,000		3,460,000	30,000		3,460,000	3,489,200	3,518,984	Capital out of Revenue
			-						
	255,431,536	(12,959,982)	242,471,554	73,119,217	-	304,103,038	120,650,450	119,719,284	

Sources of Funding									
MIG	61,691,100	-	61,691,100	33,434,597	-	61,691,100	62,961,250	66,475,300	
Water Services Infrastructure Grant	55,000,000	11,307,638	66,307,638	8,167,484	-	66,307,638	35,000,000	36,925,000	
Integrated National Electrification Progra	16,000,000	132,516	16,132,516	11,419,606	-	16,000,000	19,200,000	12,800,000	
Human Settlements Development Grant	52,380,436	(28,166,381)	27,980,300	19,844,932	-	27,980,300	-	-	
Human Settlements Development Grant (Mining Town Allocation)	46,900,000	-	46,900,000	-	-	46,900,000	-	-	
Water Supply Infrastructure Grant	20,000,000		20,000,000	222,599	-	20,000,000			
Disaster Relief Grant						47,464,000			
External Loans									
CoGTA									
WRDM									
Capital out of Revenue	3,460,000	-	3,460,000	30,000	-	17,760,000	3,489,200	3,518,984	
	255,431,536	(16,726,227)	242,471,554	73,119,217	-	304,103,038	120,650,450	119,719,284	
Departmental Allocations									
Roads and Stormwater	29,938,331	-	29,938,331	485,414	(15,300,000)	28,938,331	9,491,250	27,779,671	
Electricity	16,000,000	132,516	16,132,516	11,419,606	10,344,000	26,344,000	27,670,000	25,955,204	
Waste Removal	17,372,736	-	17,372,736	17,726,824	-	17,726,824	-	-	
Public Works	-	6,500,000	6,500,000	4,177,229	-	7,174,560	-	-	
LED	3,673,917	(3,500,000)	173,917	-	-	-	-	-	
Waste Water	16,006,116	-	16,006,116	8,994,956	15,220,000	67,653,226	55,000,000	36,925,000	
Sanitation	-	-	-	-	-	-	-	-	
Water	168,980,436	(19,858,743)	152,887,938	30,285,188	(10,264,000)	152,806,097	25,000,000	25,540,425	
Finance	3,460,000	-	3,460,000	30,000	-	3,460,000	3,489,200	3,518,984	
	255,431,536	(16,726,227)	242,471,554	73,119,217	-	304,103,038	120,650,450	119,719,284	
Capital expenditure									
Transfers recognised - capital	205,071,536	(16,726,227)	239,011,554	73,089,217	-	286,343,038	117,161,250	116,200,300	
Public contributions & donations	-						-	-	
Borrowing	-						-	-	
Internally generated funds	3,460,000	-	3,460,000	30,000	-	17,760,000	3,489,200	3,518,984	
Total sources of capital funds	208,531,536	(16,726,227)	242,471,554	73,119,217	-	304,103,038	120,650,450	119,719,284	

Council has spent R72.827 Million of a budget of R 242,472 Million. The expenditure is 30.04% of the planned expenditure for the first six months under review.

In respect of the MIG grant, expenditure on 2 projects had to be temporarily curtailed since expenditure on these projects started exceeding the registered value of the Business Plans. Applications to adjust the Business Plans have been submitted and it is expected for the adjusted Business Plans to be approved in January 2019.

Expenditure on the Post Disaster Relief grant had to be suspended in September 2018 pending the approval of a re-prioritisation of scope of work and budget of the respective projects. NDMC approval of the re-prioritisation only came through finally in early January 2019 and work with associated expenditure on these projects can now proceed.

Funding on the Mining Towns allocation was only transferred to the municipality in November 2018 following which the municipality could proceed with committing to the projects, which commensurately resulted in reduced expenditure.

4) **DEBTORS**

The table below is a reflection of the age analysis of debtors as at 31 December 2018.

Debtors outstanding as at 31 December 2018										
Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 - 180 Days	181 Days - 1 Year	Over 1 Year	Total -	Impairment - Bad Debts i.t.o Council Policy
Debtors Age Analysis By Income Source										
Trade and Other Receivables from Exchange Transactions - Water	28,836,520	24,650,894	19,829,428	14,072,283	17,093,685	14,213,775	77,244,581	316,036,791	511,977,957	475,606,515
Trade and Other Receivables from Exchange Transactions - Electricity	15,747,321	9,538,242	4,987,042	3,113,670	2,468,948	2,115,696	10,245,385	23,433,898	71,650,202	54,456,019
Receivables from Non-exchange Transactions - Property Rates	13,849,990	10,858,524	6,182,783	5,988,355	5,656,738	5,575,988	36,488,024	207,953,584	292,553,986	275,752,196
Receivables from Exchange Transactions - Waste Water Management	5,110,954	4,972,831	4,401,017	3,570,970	3,566,557	3,212,563	17,268,102	65,893,982	107,996,976	101,140,002
Receivables from Exchange Transactions - Waste Management	5,764,165	9,608,382	8,055,838	5,693,703	7,516,109	5,258,503	30,512,986	90,098,996	162,508,682	152,055,350
Receivables from Exchange Transactions - Property Rental Debtors	90,151	66,182	38,278	14,807	11,040	9,506	75,540	361,287	666,791	560,485
Interest on Arrear Debtor Accounts	18,611,838	8,995,070	9,089,376	32,801	8,925,986	8,157,473	56,201,237	250,689,731	360,703,512	236,605,570
Other	8,465,808	11,136,109	14,149,067	7,366,151	3,159,502	6,496,832	52,076,680	81,200,260	184,050,409	170,721,105
Total By Income Source	96,476,747	79,826,234	66,732,829	39,852,740	48,398,565	45,040,336	280,112,535	1,035,668,529	1,692,108,515	1,466,897,243
Debtors Age Analysis By Customer Group										
Organs of State	2,316,568	1,954,434	1,364,287	887,470	908,493	886,529	3,893,731	8,088,409	20,299,921	0
Commercial	48,936,447	28,153,313	20,877,761	12,500,402	15,494,972	15,271,648	85,094,636	556,213,407	782,542,586	643,895,238
Households	42,415,143	49,129,081	43,874,845	26,408,975	31,394,597	28,542,832	158,486,554	427,202,173	807,454,200	745,204,128
Other	2,808,589	589,406	615,936	55,893	600,503	339,327	32,637,614	44,164,540	81,811,808	77,797,877
Total By Customer Group	96,476,747	79,826,234	66,732,829	39,852,740	48,398,565	45,040,336	280,112,535	1,035,668,529	1,692,108,515	1,466,897,243

Debtors had increased by R 267,667 Million for the six months under review.

The disturbing culture of non-payment for municipal services prevailing in the municipal township areas is a significant cause for greater concern. This culture is spread to newly developed townships and this placed the financial wellbeing, viability and sustainability of the municipality at a huge risk. Implementation of credit control in all areas has been undertaken and some community members prevented the successful implementation. The average payment levels for these areas is 26.44% for the period under review and the non-payment amounts to R105.360 Million.

Pre-paid electricity meters have been installed in most of the areas where payment levels are below the average of 64.99%. The majority of these meters are by-passed and therefore arrear recovery of 60/40 cannot be collected and as a result, an amount in excess of R60 Million has been lost.

Council has commenced with credit control in these areas and were prevented by the community to execute Councils mandate of implementing credit control.

Eleven debt collectors were appointed and a total of 20 326 accounts with a total value of R692 Million was handed over for collection during the second quarter. A total amount of R3.2 Million has been recovered through debt collection processes.

Council experienced serious financial constraints during the past three years. The mines valuations were amended by the Valuations Appeal Board and this has serious implications to council's cash flow.

In terms of the Local Government Municipal Property Rates Act No 6 of 2004 section 55 reads that any adjustments made to the valuation roll in terms of Section 69 take effect on the effective date of the valuation roll, which was 1 July 2012. The amount that had to be reversed to the mines accounts were R318,404 Million.

Sibanye Gold is offsetting their rates portion of an amount of R218,527 Million against the refund owing to them which will be for at least the next 18 months. In addition, Blyvooruitzicht was placed under liquidation and when the Municipality discontinued the provision of water in mine, the community of Blyvooruitzicht and the Human Rights lawyers obtained an interdict to ensure a continuous provision of water. Municipal Council has approached the court to set aside the interdict. The court had ruled that Council can reduce the water by 40% and the residents must pay council R150 per month.

Blyvooruitzicht mine owes council R561,381 million and this represents 33% of the total outstanding debt and has increased by R47.704 Million for the six months under review. This is included in the non-payment of farms mentioned above.

The Municipal Finance Management Act prohibits any tariff increases during an adjustment budget. Expenditure was reduced to limit further cash flow difficulties as a result of the low payment for services. Unfortunately this is not enough as council cannot reduce further and end up compromising service delivery.

5) **CREDITORS**

The table below is a reflection of the age analysis of credits as at 31 December 2018.

Creditors outstanding as at 31 December 2018									
Detail	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	51 - 180 Days	81 Days -1 Year	Over 1Year	Total-
Bulk Electricity	66,844,446	24,714,867	66,788,475	73,128,216	16,622,945	0	0	0	248,098,949
Bulk Water	46,384,988	0	0	0	0	0	0	0	46,384,988
PAYE deductions	0	0	0	0	0	0	0	0	0
VAT (output less input)	11,129,318	0	0	0	0	0	0	0	11,129,318
Pensions / Retirement deductions	0	0	0	0	0	0	0	0	0
Loan repayments	0	0	0	0	0	0	0	0	0
Trade Creditors	11,760,808	20,698,675	13,810,062	17,690,547	20,456,634	326,125	35,570,170	9,606,324	129,919,345
Auditor General	0	1,352,255	0	355,401	0	0	634,324	2,808,311	5,150,291
Other	0	0	0	0	0	0	0	0	0
Total	136,119,560	46,765,797	80,598,537	91,174,164	37,079,579	326,125	36,204,494	12,414,635	440,682,891
Eskom	66,844,446	24,714,867	66,788,475	73,128,216	16,622,945	0	0	0	248,098,949
Rand Water	63,957,537	0	0	0	0	0	0	0	63,957,537
GPG Roads And Transport	0	0	2,500,615	2,500,615	2,500,615	0	5,001,230	9,623,507	22,126,582
Office Auditor General	0	1,352,255	0	0	0	0	3,798,036	0	5,150,291
Compensation Commissioner	0	0	0	0	0	0	4,742,466	0	4,742,466
De Swardt Vogel	0	0	0	0	0	0	4,618,031	0	4,618,031
Fidelity Security Services	0	1,671,262	2,754,088	0	0	0	0	0	4,425,350
Quill Associates	216,681	369,499	353,830	412,116	2,520,886	0	0	0	3,873,012
Motlatsiseleke Incorporate	0	0	0	0	0	0	3,154,043	0	3,154,043
Other	5,100,896	18,657,914	8,201,529	15,133,217	15,435,133	326,125	14,890,688	2,791,128	80,536,630
Total	136,119,560	46,765,797	80,598,537	91,174,164	37,079,579	326,125	36,204,494	12,414,635	440,682,891

Creditors increased by R91.874 Million for the six months under review and this is attributed mostly to the bulk electricity purchases which exceeded the projected amount by 12.51% as well as interest charged by creditors on overdue accounts.

Payment arrangements were entered into with various creditors, of key, Eskom, Rand Water, Fidelity Security Services, and Tallis Fleet amongst others. The payment arrangement with rand Water was settled in October 2018.

6) CASH FLOW

The table below is the actual cash flow as at 31 December 2018.

Detail	Month 1 July	Month 2 Aug	Month 3 Sept	Month 4 Oct	Month 5 Nov	Month 6 Dec
Cash Receipts by Source						
Property rates	10,621,593	11,635,169	18,841,589	11,010,386	10,229,771	13,681,240
Property rates - penalties & collection charges	0	0	0	0	0	0
Service charges - electricity revenue	18,740,908	25,546,554	22,451,010	26,647,882	21,100,689	19,383,776
Service charges - water revenue	13,721,403	15,757,447	18,324,629	16,180,332	23,633,191	20,237,726
Service charges - sanitation revenue	1,714,805	1,265,732	1,249,392	2,707,203	2,035,759	2,138,171
Service charges - refuse revenue	2,928,426	1,984,818	1,583,114	3,162,580	2,335,703	2,241,443
Service charges - other	0	0	0	0	0	0
Rental of facilities and equipment	110,327	103,865	109,722	132,976	97,371	83,444
Interest earned - external investments	674,722	139,006	94,087	692,628	689,012	2,145,798
Interest earned - outstanding debtors	368,127	319,321	260,220	308,319	311,947	315,335
Dividends received	0	0	0	0	0	0
Fines	528,491	467,964	554,837	688,199	571,330	496,926
Licences and permits	2,932,949	3,386,056	2,464,904	4,114,989	3,068,363	2,018,898
Agency services	0	0	0	0	0	0
Transfer receipts - operational	78,447,000	6,495,000	29,317,000	0	0	61,017,000
Other revenue	375,142	1,036,182	648,840	325,455	743,719	294,202
Cash Receipts by Source	131,163,893	68,137,114	95,899,344	65,970,949	64,816,855	124,053,959
Other Cash Flows/Receipts by Source						
Transfer receipts - capital	53,476,000	20,000,000	0	0	30,223,000	3,500,000
Contributions recognised - capital & Contributed	0	0	0	0	0	0
Proceeds on disposal of PPE	0	0	0	0	0	0
Short term loans	0	0	0	0	0	0
Borrowing long term/refinancing	0	0	0	0	0	0
Increase (decrease) in consumer deposits	0	0	0	0	0	0
Decrease (Increase) in non-current debtors	0	0	0	0	0	0
Decrease (increase) other non-current	0	0	0	0	0	0
Decrease (increase) in non-current investments	0	0	0	0	0	0
Total Cash Receipts by Source	184,639,893	88,137,114	95,899,344	65,970,949	95,039,855	127,553,959
Cash Payments by Type						
Employee related costs	24,405,313	27,620,686	25,332,047	26,827,784	25,626,048	27,904,752
Remuneration of councillors	1,757,815	1,920,815	1,913,069	1,913,069	2,817,315	1,701,992
Collection costs	0	0	0	0	0	0
Interest paid	0	1,688,615	3,862,591	2,146,376	2,858,734	6,115,381
Bulk purchases - Electricity	27,203,870	38,138,195	28,335,346	4,505,822	5,268,120	19,654,236
Bulk purchases - Water & Sewer	20,718,073	20,923,772	8,242,031	45,632,699	0	34,628,069
Other materials	0	0	0	0	0	0
Contracted services	394,740	3,314,239	3,860,618	10,915,573	5,242,978	10,768,500
Grants and subsidies paid - other municipalities	0	0	0	0	0	0
Grants and subsidies paid - other	0	0	0	0	0	0
General expenses	955,788	2,086,831	8,870,677	5,081,891	5,496,747	8,130,633
Cash Payments by Type	75,435,599	95,693,153	80,416,379	97,023,214	47,309,942	108,903,563
Other Cash Flows/Payments by Type						
Capital assets	11,621,471	14,889,514	4,968,190	15,274,246	14,448,671	11,917,124
Repayment of borrowing	0	0	1,907,605	0	0	950,442
Other Cash Flows/Payments	0	0	0	0	0	0
Total Cash Payments by Type	87,057,070	110,582,667	87,292,174	112,297,460	61,758,613	121,771,129
Net Increase/(Decrease) in Cash Held	97,582,823	-22,445,553	8,607,170	-46,326,511	33,281,242	5,782,830
Cash/cash equivalents at the month/year begin:	54,980,291	152,563,114	130,117,561	138,724,731	92,398,220	125,679,462
Cash/cash equivalents at the month/year end:	152,563,114	130,117,561	138,724,731	92,398,220	125,679,462	131,462,292

The financial position of the municipality is further compromised by the investment made with VBS Mutual Bank which was placed under curatorship on the 11th March 2018 and subsequently the bank has been placed under liquidation. The capital amount invested of R50 000 000 as well as the interest has been frozen and the curator has been appointed in this regard. Gauteng Provincial Treasury is conducting an investigation into the investment of the amount in VBS bank. Provision has been made to impair the investment as the prognosis is that the funds may not be recovered.

As at the 31 December 2018 the unspent portion of grant funding received was R167,880 Million and the actual amount in the bank account as at 31 December 2018 was R152 584m and this results in a shortfall of R15,296 Million as at 31 December 2018. The shortfall amount is as a result of the impairment of the investment made with VBS Mutual Bank.

The average payment level was 64% as compared to 75% as budgeted for. The bypassed prepaid meters as at 31 December 2018 is 10800.

The above has significantly impacted on the cash flow challenges that is continuously being experienced. Any further reduction in expenditure will compromise service delivery.

Communications implications

The adjustment budget will be communicated in compliance with the provisions of the MFMA.

Constitutional and legal implications

Item in terms of section 28 and 29 of the MFMA

Other Departments / Bodies Consulted

All departments, EXCO, Section 80 Finance and Mayoral Committee.

RECOMMENDED:

- i) That cognisance be taken of the proposed adjustment budget for the 2018/19.
- ii) That cognisance be taken that the revenue budget will increase to R1,268,765 Million and expenditure budget will increase to R1,528,568 Million for the 2018/2019.
- iii) That cognisance be taken of a deficit of R259,804 Million as a result of the adjustment budget and that the deficit will be funded from accumulated surpluses of R2,637,842 Million.
- iv) That cognisance be taken that the adjustment budget will not result in tariff changes and that the tariffs as adopted by Council for the 2018/2019 financial year remain unchanged.
- v) That cognisance be taken that the capital budget is adjusted to R304,103 Million for the 2018/19 financial year.
- vi) That the adjustment budget for the 2018/2019 financial year be approved by Council as the as the projections for the two outer years 2019/2020 and 2020/2021.