

## OVERVIEW OF OPERATING REVENUE AND EXPENDITURE PERFORMANCE FOR THE PERIOD JULY 2015 TO SEPTEMBER 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 30 September 2015 R'000	% of Budget
<b>OPERATING REVENUE</b>			
Property Rates	1,504,945	382,669	25.43
Sale of Electricity	3,519,222	853,147	24.24
Sale of Water	639,699	132,650	20.74
Refuse Charges	222,076	56,995	25.66
Sewerage Charges	436,338	109,110	25.01
<b>Total Service Charges</b>	<b>4,817,335</b>	<b>1,151,902</b>	<b>23.87</b>
Rent of Facilities and Equipment	23,342	5,833	24.99
Interest Earned – External Investments	70,145	12,830	18.29
Interest Earned – Outstanding Debtors	159,327	(8,262)	(5.19)
Fines	11,861	4,699	39.62
Licenses and Permits	11,963	2,945	24.62
Income for Agency Services	2,428	576	23.72
Grants & Subsidies Received - Operating	1,327,271	359,708	27.10
Other Revenue	956,838	205,836	21.51
<b>Total Direct Operating Revenue</b>	<b>8,885,456</b>	<b>2,118,187</b>	<b>23.84</b>
<b>OPERATING EXPENDITURE</b>			
Employee Related Costs	2,289,517	503,650	22.00
Remuneration of Councillors	64,429	14,902	23.13
Bad Debts	379,384	217,582	57.35
Depreciation	873,746	218,493	25.01
Repairs and Maintenance – Municipal Assets	524,729	74,169	14.13
Interest Expense – External Borrowings	168,361	31,167	18.51
Purchase of Electricity	2,638,068	855,684	32.44
Purchase of Water	104,101	454	0.04
<b>Total Bulk Purchases</b>	<b>2,742,169</b>	<b>856,138</b>	<b>31.22</b>
Contracted Services	333,353	57,101	17.13
Grants & Subsidies Paid	430,509	99,178	23.04
General Expenses – Other	1,013,642	183,906	18.14
<b>Total Direct Operating Expenditure</b>	<b>8,819,839</b>	<b>2,256,287</b>	<b>25.58</b>
<b>Surplus / (Deficit)</b>	<b>65,617</b>	<b>-138,100</b>	

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

The statement of financial performance indicates a deficit of approximately R138.1 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**

#### **Service charges – Electricity Revenue**

Although electricity revenue raised is at 24.24%, compared to the 2015/16 Operating Budget, it does not include the consumption in respect of Medium and Large Businesses billed during October 2015, relating to September 2015 consumption. The electricity revenue thus appears to be in line with the 2015/16 Operating Budget, from a revenue raised perspective.

#### **Service charges – Water Revenue**

Water revenue raised is only at 20.74 %, compared to the 2015/16 Operating Budget. The water losses recorded for the period July to September 2015 have increased and require urgent attention.

#### **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. An investigation should be undertaken to determine the 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 negative amount represents the reversal of interest relating to the high energy users, in the amount of R43.4 million. This interest relates to the 2014/15 financial year and will be adjusted in the 2014/15 Annual Financial Statements.

#### **Fines**

This revenue source has decreased from R36.8 million in the 2014/15 Original Budget to R11.9 million in the 2015/16 Operating 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 September 2015 amounted to R3.72 million or 51.2% of the 2015/16 Original Budget for Traffic Fines of R7.28 million.

#### **Licences and Permits**

The revenue earned from Drivers Licence Card Conversions amounted to R2.40 million, representing only 24.10% of the 2015/16 Operating Budget of R9.96 million. The Safety and Security Directorate has indicated that the actual revenue is below the required level, as Legislation does not specify where card conversions must take place, with such services also being provided by neighbouring municipalities.

## Expenditure Variations:

### Employee related costs

Indications are, based on current spending patterns that the 2015/16 Operating Budget for employee related costs 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.

A report in this regard will be submitted to the Committee's meeting scheduled for January 2016.

### 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, in the amount of R152,1 million. This amount relates to the 2014/15 financial year and will be adjusted in the 2014/15 Annual Financial Statements.

### Repairs and Maintenance

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

Directorate	Operating Budget	Actual as at 30 Sept 2015	% of Budget
Budget & Treasury	2,266,170	126,234	5.57
Public Health	8,688,930	811,471	9.34
Human Settlements	1,924,000	433,518	22.53
Economic Development , Tourism and Agriculture	2,302,070	39,218	1.70
Sports, Recreation, Arts and Culture	31,149,590	2,309,010	7.41
Corporate Services	23,820,750	3,226,545	13.55
Rate and General: Infrastructure & Engineering	129,839,320	17,134,977	13.20
Water Services	126,176,430	18,948,845	15.02
Sanitation Services	128,962,030	18,115,390	14.05
Electricity and Energy	54,922,640	8,854,553	16.12
Executive and Council	3,814,380	2,634,728	69.07
Safety and Security	10,631,840	1,525,241	14.72
Strategic Programmes Directorate	230,940	8,813	3.82
<b>Total</b>	<b>524,729,090</b>	<b>74,168,543</b>	<b>14.13</b>

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.

#### Interest Expense - External Borrowings

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

#### Bulk Purchases - Electricity

The purchase of electricity during the period July 2015 to August 2015 is more than anticipated in the 2015/16 Budget due to a 1.01% increase in the units purchased, compared to the corresponding period July 2014 to September 2014.

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.

A report in this regard will be submitted to the Committee's meeting scheduled for January 2016.

#### Bulk Purchases - Water

The low expenditure is attributable to the non-submission of invoices by the Department of Water Affairs.

#### 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.

**Please note that the September figures are preliminary, and subject to amendment as all the required information was not available at the time of finalising the agenda.**

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
Total Purchases Energy (kWh)	3,538,164	320,834	310,602	297,930	0	0	0	0	0	0	0	0	0	929,365
Total Sales Energy (kWh)	3,054,103	265,984	263,188	261,976	0	0	0	0	0	0	0	0	0	791,058
Unbilled energy (kWh)	484,061	54,940	47,414	35,954										138,308
Street Light and Traffic Lights (kWh)	49,122	4,094	4,094	4,094	0	0	0	0	0	0	0	0	0	12,281
Energy Loss ( kWh )	434,939	50,846	43,320	31,860	0	0	0	0	0	0	0	0	0	126,027
% Total Losses	12.29%	15.85%	13.95%	11%	0%	0%	0%	0%	0%	0%	0%	0%	0%	13.56%
Technical Losses in units	212,290	19,250	18,636	17,876	0	0	0	0	0	0	0	0	0	55,762
Non-Technical Losses in units	222,649	31,596	24,684	13,985	0	0	0	0	0	0	0	0	0	70,265
Average Purchase Price	0.56	0.83	0.80	0.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.56
Rand Value - Technical Losses	116,239	15,946	14,819	9,474	0	0	0	0	0	0	0	0	0	40,238
Rand Value - Non Technical Losses	128,136	26,172	19,628	7,412	0	0	0	0	0	0	0	0	0	53,212
Rand Value - Total Losses	244,375	42,118	34,446	16,886	0	0	0	0	0	0	0	0	0	93,450

- Electricity losses comprise of both Technical and Non Technical losses.
- Technical Losses are assumed to be at 6% of Purchases
- 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 purchase 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 Department of Water Affairs has issued a new template for calculating Water losses. The losses for the month of September 2015 were 4,690 KI, which represents 51.4%. The total losses for the period July 2015 to September 2015 were 13,836 KI, which represents an average loss of 49.4% over the period. It is evident that water losses are at unacceptable levels.

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	0	0	0	0	0	0	0	0	0	28,034
Total Sales Water (kl)/ Authorised Consumption	62,656	4,809	4,957	4,432	0	0	0	0	0	0	0	0	0	14,198
<b>Losses in Units</b>	<b>46,643</b>	4,543	4,605	4,690	0	0	0	0	0	0	0	0	0	<b>13,836</b>
% losses or units not charged for	<b>42.7%</b>	48.6%	48.2%	51.4%	0%	0%	0%	0%	0%	0%	0%	0%	0%	<b>49.35%</b>
Less Apparent Losses	4,664	454	460	469	0	0	0	0	0	0	0	0	0	1,383
Real Losses in Units Excluding Apparent Losses	41,980	4,088	4,144	4,221	0	0	0	0	0	0	0	0	0	12,453
% Real Losses Excluding Apparent Losses	<b>38.4%</b>	43.7%	43.3%	46.3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	<b>44.4%</b>
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 Losses	148,001	16,128	16,348	16,650	0	0	0	0	0	0	0	0	0	49,126

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