

REPORT TO THE uMGUNGUNDOVU DISTRICT MUNICIPALITY COUNCIL



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Report Number: 02	Designation	: ACFO

For consideration

1 st Level – MANCO	: /09/2020
2 nd Level – Portfolio Committee	: 17/09/2020
3 rd Level – EXCO	: 23/09/2020
4 th Level – Council	: 30/09/2020

SUBJECT: PRELIMINARY MONTHLY IN YEAR MONITORING FINANCIAL REPORT FOR THE PERIOD ENDED 30 AUGUST 2020

DATE : 14 SEPTEMBER 2020

1. PURPOSE

The purpose of this report is to comply with section 71 of the Municipal Finance Management Act (MFMA) and the requirements as promulgated in the Government Gazette No 32141 of 17 April 2009.

2. STRATEGIC OBJECTIVE

To ensure good governance, financial viability and optimal institutional transformation with capacity to execute its mandate.”

3. BACKGROUND

Section 71 of the MFMA and in terms of Section 28 of the Government Notice 32141 dated 17 April 2009, regarding the “Local Government: Municipal Finance Management Act 56 of 2003, Municipal Budget and Reporting Regulations” necessitates that specific financial particulars be reported on and in the format prescribed, hence this report to meet legislative compliance.

“The Mayor of a municipality-

Section 71(1) The accounting officer of a municipality must by no later than **10 working days after the end of each month** submit to the Mayor or of the municipality and the relevant treasury a statement in the prescribed format on the state of the municipality’s budget reflecting the following particulars for the month and for the financial year up to the end of that month: ...”.

The monthly budget statement of a municipality must be in the format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.”

For the reporting period ending 31 AUGUST 2020 the ten working day reporting limit expires on 14 SEPTEMBER 2020.

4. REPORT

The below is the summary of financial performance for the period ended 31 AUGUST 2020.

Table 1

Summary of financial performance	
Actual Revenue to Budgeted Revenue	33
Actual OPEX to budgeted OPEX	11
Actual CAPEX to budgeted CAPEX	4
Employee related cost exp to total OPEX	48
% Grant Utilisation	13.58
Cash Coverage Ratio	0.98
Debt Service to Revenue Ratio	0.56
% Debt to Revenue Ratio	61.48
Creditors Age Analysis	35% or R 24 million of creditors is outstanding longer than 30 days.
Debt Collection Rate	61

4.1 Operating Budget

The revenue raised as at 31 August 2020 is R 314 million against the original budget of R 936 million for the year and R 156 million for the period. This reflects a revenue rate of 33 % against the original annual budget.

The operating expenditure as at 31 August 2020 was R 91 million vs a year to date budget of R135 million reflecting YTD expenditure of 67% and 11 % of the original annual budget. The operating surplus for the period was R 231 million.

4.2 Capital Expenditure

The total capital budget for the 2020/2021 financial year is R 183 million including the allocation for the Rural Roads Assets Management Grant of R 2 million. The MIG allocation is R 101 million and the Water Services Infrastructure Grant is R 80 million. Year to date expenditure for amounts to MIG R 4.1 million and WSIG R3.9 million.

Total capital expenditure to date is R8.1 million or 4.41% against the original budget.

4.3 Employee Related Costs and Councilor Allowances

The total salaries budget for councillor's amounts to R 13 million while salaries budget for staff amounts to R 249 million. This brings the total salaries budget to R 263 million, which is 32 % of the total operational budget. This is within the norm of 25% - 40% in terms of National Treasury circular 71 of 2014.

As at 31 August 2020, 14.7 % of the councilor's allowances budget was spent and 16.7 was spent on the employee costs. The total actual salary cost including councilor's allowances represented 48% of total operating expenditure for the period which is above the norm of 25%-40% to total operating expenses as set by National Treasury circular 71.1

4.4 Conditional Grants

As at the end of August 2020 a total of R35.2 millions of conditional grants was received since 1 July 2020, whilst an additional R 26.5 million was available and was received in the previous financial year.. R8.3 million of the capital grants was spent during the month of August 2020 and a total of R 288 000 was spent on operational grants. The operating grant utilisation is at 2.69% and the capital grant utilisation was 15.87 % of allocations received. Overall grant utilisation is at 13.58%.

4.5 Cash and Cash Equivalents

An amount of R 25 479.45 was accrued in investment interest income for the month of August 2020. The cash in bank as at 31 August 2020 amounted to **R 207 million** and investments amounted to **R 4 million** bringing a total cash and cash equivalents of **R 211 million**. The average interest rate on investment is at 8%. The cash coverage ratio as at 31 August 2020 is **based** on average of R 85 million per month fixed operating expenditure. This indicates that the municipality as at 31 August 2020 have sufficient cash to run its operation for a based on a 30 day calendar month. The norm as set out in the uniform financial ratios and norms circular 71 is 1 to 3 months.

4.6 Borrowings

As at 31 August 2020 the loans book was sitting at R193.4 million. The average interest rate on remaining loan is 10.8 %. The debt to revenue ratio at 61.48 % as projected which is below the treasury norm of below 45%.

4.7 Outstanding Creditors

The balance of trade payables as at 31 August 2020 amounts to R 70.6 million.

A total R 24.4 million or 35% of invoices remained outside the compliance period of 30 days as at 31 August 2020. None of the bulk services, 3rd party and statutory invoices were outstanding for longer than 30 days as at 31 August 2020.

The invoices that are outstanding longer than 150 days, are mostly invoices under dispute. The Heads of Departments have been requested to finalise the disputes with the service providers or the service providers have been requested to submit a credit note to cancel the raised invoices. The municipality has extended rental lease agreements to allow for the supply chain processes to be finalized.

4.8 Billing Revenue and Debtors

Billing revenue for the month of August 2020 was R29 million. Actual collections during August 2020 were R17.2 million which represented 61% of the July 2020 billed revenue. The overall collection rate is 65 % which is about the same as the collection rate for the same period in the previous financial year.

The percentage of collection for Water Schemes is low as consumers in these areas refuse to pay for water services rendered. Certain rural schemes have constant interruption of water supply and it is therefore difficult to implement the Credit Control Policy in these areas.

The municipality has partnered with the Development Bank of Southern Africa to embark on a pilot data cleansing and revenue management exercise. The pilot has since been completed with recommendations that are considered by the municipality to increase and enhance revenue raising and collection strategies.

The debtor book value as at 31 August 2020 amounted to **R896 million**. The collection rate in the month of August was 61 %. The average collection rate to date from August 2020 is 65 %. Staff owe a total of R569 thousand, a total of R462 thousand is more than 90 days. Individual letters are being sent to individuals to sign consent for the Municipality to deduct the monies owed above 90 days during the end September payroll run.

5. RECOMMENDATIONS

- (1) That, in compliance with, Section 71 of the MFMA and in terms of Government Notice 32141 dated 17 April 2009, regarding the “Local Government: Municipal Finance Management Act 2003 Municipal Budget and Reporting Regulations” the **preliminary** financial results regarding the operating and capital budgets for the second month of the 2020/ 2021 financial year, and supporting documents as required by National Treasury (Schedule C) be submitted to Council.
- (2) In order to comply with Section 31(1) of the Government Gazette No 32141 of 17 April 2009 this report be submitted to the National Treasury and the relevant Provincial Treasury within five days of tabling of the report in the council, in both a Council approved document and in electronic format.
- (3) That Committee notes and approves the following:
 - 3.1 Surplus for the period ending 31 August 2020 is R 231 million.
 - 3.2 Cash & Cash Equivalent for the period ending 31 August 2020 is R 207.5 million excluding the investment of R 4 million held as security for the loan.
 - 3.3 Capital Expenditure for the period ending 31 August 2020 is R 8.1 million.
 - 3.4 Trade Payables for the period ending 31 August 2020 is R70.6 million.
 - 3.5 Trade Receivables for the period ending 31 August 2020 is R 896.4 million.
 - 3.6 Unspent conditional Grants for the period ending 31 August 2020 is R53.3 million.
- (4) The Committee notes the cash and cash equivalents of R 207 million translates to a positive cash Coverage of 25 days. The National Treasury Norm of 1 – 3 months.