

## REPORT TO THE uMGUNGUNDOVU DISTRICT MUNICIPALITY COUNCIL



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| Report Number: 05        | Designation : CFO         |

For consideration

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|---|------------|
| 1 <sup>st</sup> Level – MANCO               | : /12/2020 |
| 2 <sup>nd</sup> Level – Portfolio Committee | : /12/2020 |
| 3 <sup>rd</sup> Level – EXCO                | : /12/2020 |
| 4 <sup>th</sup> Level – Council             | : /12/2020 |

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**SUBJECT: PRELIMINARY MONTHLY IN YEAR MONITORING FINANCIAL REPORT FOR THE PERIOD ENDED 31  
OCTOBER 2020**

**DATE : 14 DECEMBER 2020**

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### 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 **30 NOVEMBER 2020** the ten working day reporting limit expires on **14 DECEMBER 2020**.

#### 4. REPORT

The below is the summary of financial performance for the period ended 30 NOVEMBER 2020.

**Table 1**

| Summary of Financial Performance        |  |
|---|--|
| Actual Revenue to Budgeted Revenue      | 40   |
| Actual OPEX to budgeted OPEX            | 43   |
| Actual CAPEX to budgeted CAPEX          | 21   |
| Employee related cost exp to total OPEX | 35   |
| % Grant Utilisation                     | 42.91  |
| Cash Coverage Ratio                     | 0.02   |
| Debt Service to Revenue Ratio           | 0.33   |
| % Debt to Revenue Ratio                 | 37.34  |
| Creditors Age Analysis                  | 28% or R 19.2 million of creditors is outstanding longer than 30 days. |
| Debt Collection Rate                    | 62   |

#### 4.1 Operating Budget

The revenue raised as at 30 November 2020 is R 398.7 million against the adjusted budget of R 976.7 million for the year and R 527.3 million for the period. This reflects a revenue rate of 40% against the adjusted budget.

The operating expenditure as at 30 November 2020 was R 346.9 million vs a year to date budget of R 331.1 million reflecting YTD expenditure of 104% and 43% of the original annual budget. The operating surplus for the period was **R 98.3 million**.

#### 4.2 Capital Expenditure

The total adjusted capital budget for the 2020/ 2021 financial year is **R 225 million** including the allocation for the Rural Roads Assets Management Grant of R 2.5 million. The MIG allocation is R 101 million, R41.2 million is an additional allocation from Treasury for Covid 19 Response and the Water Services Infrastructure Grant is R 80 million and the adjusted Capital Expenditure is **R225 million**. Year to date expenditure for MIG is R 16.6 million and WSIG is R 29.9 million.

Total capital expenditure to date is **R 47.3 million** or **21.03%** against the adjusted budget.

### 4.3 Employee Related Costs and Councilor Allowances

The total salaries budget for councillor's amounts to R 13.7 million while salaries budget for staff amounts to R 269.9 million. This brings the total salaries budget to R 283.7 million, which is 36% of the total operational budget. This is below the norm of 25% - 40% in terms of National Treasury circular 71 of 2014.

As at 30 November 2020, 35% of the councilor's allowances budget was spent and 42% was spent on the employee costs. The total actual salary cost including councilor's allowances represented 35% of total operating expenditure for the period which is within 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 November 2020 a total of R 88.6 million 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. R 49.4 million was spent during the month of November 2020. The operating grant utilisation is at 17 40% and the capital grant utilisation was 45.90% of allocations received. Overall grant utilisation is at 42.91%.

### 4.5 Cash and Cash Equivalents

An amount of R 12 729 was accrued in investment interest income for the month of November 2020. The cash in bank as at 30 November 2020 amounted to **R 67.1 million** and investments amounted to **R 3.8 million** bringing a total cash and cash equivalents of **R 70.9 million**. The average interest rate on investment is at 4.1%. The cash coverage ratio as at 30 November 2020 is **0.02 based** on average of R 75 million per month fixed operating expenditure. This indicates that the municipality as at 30 November 2020 have sufficient cash to run its operation for **0.53 days** 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. See below extract from SC 5.

### 4.6 Borrowings

As at 30 November 2020 the loans book was sitting at R 198.6 million. The average interest rate on remaining loans is 10.8 %. The debt to revenue ratio at 37.34% as projected which is below the treasury norm of below 45%. This indicates that the debt book is funded by 0.33% of the internally generated operating income.

### 4.7 Outstanding Creditors

The balance of trade payables as at 30 November 2020 was R 68.4 million.

Total R 19.2 million or 28% of invoices remained outside the compliance period of 30 days as at 30 November 2020. None of the bulk services, 3rd party and statutory invoices were outstanding for longer than 30 days as at 30 November 2020.

The invoices that are outstanding longer than 150 days, are mostly invoices under dispute. The Heads of Departments have been requested to finalize 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 November 2020 was R 28.2 million. Actual collections during November 2020 were R 16.3 million which represented % of the October 2020 billed revenue. The overall collection rate is 59% which is above 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 30 November 2020 amounted to **R 938.5 million**. Engagements with organized labour through the Local Labor Forum have been finalized and agreed upon to deal with regards to staff balances. Individual letters are being sent to individuals to sign consent for the Municipality to deduct the monies owed above 90 days.

## 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 30 November 2020 is R 98.3 million.
  - 3.2 Cash & Cash Equivalent for the period ending 30 November 2020 is R 67.1 million excluding the investment of R 3.7 million held as security for the loan.
  - 3.3 Capital Expenditure for the period ending 30 November 2020 is R 47.3 million.
  - 3.4 Trade Payables for the period ending 30 November 2020 is R 68.4 million.
  - 3.5 Trade Receivables for the period ending 30 November 2020 is R 938.5 million.
  - 3.6 Unspent conditional Grants for the period ending 30 November 2020 is R 65.8 million.
- (4) The Committee notes the cash and cash equivalents of R 67.1 million translates to a positive cash Coverage of 25 days. Ohe National Treasury Norm of 1 – 3 months.