

REPORT TO THE uMGUNGUNDOVU DISTRICT MUNICIPALITY COUNCIL



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For consideration

1 st Level – MANCO	:
2 nd Level – Portfolio Committee	: 14/01/2022
3 rd Level – EXCO	: /01/2022
4 th Level – Council	: /01/2022

SUBJECT: PRELIMINARY MONTHLY IN YEAR MONITORING FINANCIAL REPORT FOR THE PERIOD ENDED 31 DECEMBER 2021
DATE : 14 JANUARY 2022

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 December 2021** the ten working day reporting limit expires on **14 January 2022**.

4. REPORT

The below is the summary of financial performance for the period ended **31 December 2021**.

Table 1

Summary of Financial Performance	
Actual Revenue to Budgeted Revenue	66
Actual OPEX to budgeted OPEX	36
Actual CAPEX to budgeted CAPEX	79
Employee related cost exp to total OPEX	47
% Grant Utilisation	86.9
Cash Coverage Ratio	2.72
Debt Service to Revenue Ratio	0.70
% Debt to Revenue Ratio	19.07
Creditors Age Analysis	57% or R 50.3 million of invoices outside 30days
Debt Collection Rate	53

4.1 Operating Budget

The revenue raised as at 31 December 2021 is **R659.5 million** against the original budget of **R 992.9 million** for the year and **R 496.5 million** for the period. This reflects a revenue rate of **66%** against the original budget and **132%** against the year-to-date (YTD) original budget.

The operating expenditure as at 31 December 2021 was **R304.2 million** against the original budget of **R849.9 million** and year to date budget of **R 286.3 million**. This reflects YTD expenditure of **106%** and **36%** of the original budget. The operating surplus for the period was **R 355.2 million**.

4.2 Capital Expenditure

The total original capital budget for the 2021/ 2022 financial year is **R 195.5 million**. This includes the allocations from the Municipal Infrastructure Grant (MIG) of **R 107.9 million**, the Water Services Infrastructure Grant (WSIG) of **R 85 million** and the Rural Roads Assets Management Grant (RRAMS) of **R 2.6 million**.

Year to date expenditure for MIG is **R 106.4 million**, WSIG is **R 48.1 million** and RRAMS is nil.

Total capital expenditure to date is **R 154.5 million** or **79.03%** against the original budget.

4.3 Employee Related Costs and Councilor Allowances

The total salaries budget for councillors amounts to **R 12.9 million** while salaries budget for staff amounts to **R 275.3 million**. This brings the total salaries budget to **R 288.2 million**, which is **34%** 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 December 2021, **42%** of the councilors' allowances budget was spent and **50%** was spent on the employee costs budget. The total actual salary cost including councilors' allowances represented **47%** 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. This ratio will reduce as and when other categories of expenditure are incurred.

4.4 Conditional Grants

As at the 31 December 2021, a total of **R 161.9 million** of conditional grants was received since 1 July 2021 whilst an additional **R 18.5 million**, which was received in the previous financial year, was available at the beginning of the period. A total of **R 156.7 million** was spent as at 31 December 2021. The operating grant utilisation is at **23.6%** and the capital grant utilisation was **90.4%** of allocations received. The overall grant utilisation is at **86.9%**.

4.5 Cash and Cash Equivalents

An amount of **R 16 721** as accrued in investment interest income for the month of December 2021. The cash in bank as at 31 December 2021 amounted to **R 214.3 million** and investments amounted to **R 3.8 million** resulting in a total cash and cash equivalents balance of **R 218.2 million**. The average interest rate on investment is at **5.25%**. The cash coverage ratio as at 31 December 2021 is **2.72** based on average of R 70 million per month fixed operating expenditure. This indicates that the municipality as at 31 December 2021 has enough cash to run its operations for **81.69 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 (30 – 90 days).

4.6 Borrowings

As at 31 December 2021, the loan book was at a total balance of **R 189.4 million**. The average interest rate on remaining loan is **10.889%**. The debt to revenue ratio is projected at **19.07%** which is within the treasury norm of below 45%. The debt service to income ratio indicates that the costs associated with the debt was funded by **0.70%** of the operating income in the month of December 2021.

4.7 Outstanding Creditors

The balance of trade payables as at 31 December 2021 was **R 87 million**.

A total of **R 50.3 million** or **58%** of invoices remained outside the compliance period of 30 days as at 31 December 2021.

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 December 2021 was **R 29.6 million**. Actual collections during November 2021 were **R 15.3 million** which represented **53%** of the November 2021 billed revenue. The average collection rate for the financial year is **54%** which is below the collection rate for the same period in the previous financial year of **58%**.

The percentage of collection for Water Schemes remains 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. Strategies are being developed and will be implemented in due course with the aim to improve the collection of these outstanding amounts.

As part of the Revenue Enhancement Programme, the municipality is conducting a data cleansing and revenue management exercise. This exercise was previously piloted by the municipality in partnership with the Development Bank of Southern Africa and was completed with recommendations that are considered by the municipality to increase and enhance revenue raising and collection strategies.

The debtors book value as at 31 December 2021 amounted to **R 1.173 billion**. A total of **R 1.090 billion** or **92%** relates to amounts owing for more than 90 days. The accumulated impairment of debtors amounts to **R 965 million**. Interest on outstanding debtors to a total of **R20 209** has been written off through the Incentive Scheme for consumers which came into effect on 15 June 2021 and is valid until 01 February 2022.

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.

4.9 Budget Funding Plan

The 2021/22 Budget Funding Plan detailing the financial recovery strategies of the municipality was adopted by Full Council on 29 September 2021.

The year-to date (01 July to 31 December 2021) financial information indicates the following:

The service charges generated to date for both water and sanitation are slightly below the budgeted projections. In month five we would anticipate having generated approximately 50% of the budgeted amount. Service charges for water are **45%** when compared to the total projections for the period which is in line with the projection as per the budget funding plan whereas service charges for sanitation are below the projection at **36%**.

Interest earned on external investments as well as the interest earned on outstanding debtors was projected conservatively for purposes of the budget funding plan where actuals to date are **251%** and **210%**, respectively, of the projected amounts.

The employee related costs (employee and councillors) are in line with the budget funding plan at **52%** of the projected amount as per the budget funding plan whereas the remuneration of councillors is at **43%**.

The pattern of spend of the contracted services and operational expenditure is not fixed throughout the financial year. Contracted services is at **56%** and other expenditure is at **94%** with inventory consumed at **6%**. The Budget and Treasury Office has commenced with an in-depth analysis of expense accounts in the financial system to ensure that the allocations of expenses are in line with the nature of the expenditure.

This comprises a full examination of the use of segments. The expected outcome of the analysis is to achieve the correct composition of accounts to enable accurate processing of transactions in line with the Municipal Regulations on Standard Chart of Accounts and accurate comparison of budgeted income and expenditure against actual performance. Moreover, the municipality is in the process of correcting the financial system (transacting) per account type which we anticipate will be concluded in time for the mid-year assessment.

The Budget and Treasury Office is also in the process of reviewing budget allocations and making necessary corrections.

The results of the transaction analysis together with the review of the budget allocations will inform the adjustment budget recommendations to Council.

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 sixth month of the 2021/2022 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 The surplus after capital transfers and contributions for the period ending 31 December 2021 is **R 509.7 million**.
 - 3.2 Cash & Cash Equivalents for the period ending 31 December 2021 is **R 214.3 million** excluding the investment of **R 3.8 million** held as security for the loan.
 - 3.3 Capital Expenditure for the period ending 31 December 2021 is **R 154.5 million**.
 - 3.4 Trade Payables for the period ending 31 December 2021 is **R 87 million**.
 - 3.5 Trade Receivables for the period ending 31 December 2021 is **R 1.173 billion**.
 - 3.6 Unspent conditional Grants for the period ending 31 December 2021 is **R 23.7 million**.
4. The Committee notes the cash and cash equivalents of **R 218.2 million** translates to a positive cash Coverage of **81.69 days**. National Treasury Norm of 1 – 3 months (30 to 90 days).
5. The Committee notes the progress made on the 2021/22 budget funding plan.