

REPORT TO THE uMGUNGUNDOVU DISTRICT MUNICIPALITY COUNCIL



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For consideration

1 st Level – MANCO	:
2 nd Level – Portfolio Committee	: 14/03/2022
3 rd Level – EXCO	: /03/2022
4 th Level – Council	: /03/2022

SUBJECT: PRELIMINARY MONTHLY IN YEAR MONITORING FINANCIAL REPORT FOR THE PERIOD ENDED 28 FEBRUARY 2022
DATE : 14 MARCH 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 **28 February 2022** the ten working day reporting limit expires on **14 March 2022**.

4. REPORT

The below is the summary of financial performance for the period ended **28 February 2022**.

Table 1

Summary of Financial Performance	
Actual Revenue to Budgeted Revenue	70
Actual OPEX to budgeted OPEX	49
Actual CAPEX to budgeted CAPEX	80
Employee related cost exp to total OPEX	46
% Grant Utilisation	87.01
Cash Coverage Ratio	1.38
Debt Service to Revenue Ratio	1.82
% Debt to Revenue Ratio	24.37
Creditors Age Analysis	67% or R 74.5 million of invoices outside 30days
Debt Collection Rate	42

4.1 Operating Budget

The revenue raised as at 28 February 2022 is **R 726.4 million** against the adjusted budget of **R 1.033 billion** for the year and **R 662 million** for the period. This reflects a revenue rate of **70%** against the adjusted budget and **110%** against the year-to-date (YTD) original budget.

The operating expenditure as at 28 February 2022 was **R 416.2 million** against the adjusted budget of **R 855.3 million** and year to date budget of **R381.7 million**. This reflects expenditure of **49%** against the adjusted budget and **109%** against the year-to date budget. The operating surplus for the period was **R 310.2 million** and the surplus after capital transfers and contributions was **R480.9 million**.

The expenditure relating to bulk water purchases is not reflected in the above table. This expenditure was at a total of **R152 million** resulting in a recalculated total expenditure of **R568.2 million**. This reflects total recalculated expenditure of **66%** against the adjusted budget. The recalculated operating surplus is **R158.2 million** and the surplus after capital transfers and contributions was **R314.9 million**.

4.2 Capital Expenditure

The total adjusted capital budget for the 2021/2022 financial year is **R 214.2 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**, the Rural Roads Assets Management Grant (RRAMS) of **R 2.6 million**, the Accelerated Water Intervention Project (AWIP) of **R 18 million** and the Internally Generated Funded Assets of **R 693 169**.

Year to date expenditure for MIG is **R 106.4 million**, WSIG is **R 51.6 million**, RRAMS is nil and AWIP is **R 12.6 million**. Year to date capital expenditure from internal funding is **R 594 302** This represents **86%** of the total adjusted budget.

Total capital expenditure to date is **R 171.2 million** or **80%** against the adjusted budget.

4.3 Employee Related Costs and Councilor Allowances

The total salaries budget for Councillors amounts to **R 11.6 million** while salaries budget for staff amounts to **R 260.4 million**. This brings the total salaries budget to **R 271.9 million**, which represents **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 28 February 2022, actual staff salaries cost incurred, including Senior Managers, as at 28 February 2022 is spent at **70.6%** which amounts to **R 183.8 million** while the actual salaries cost for Councillors is spent at **64.1%** which amounts to **R 7.4 million**. Therefore, total salaries cost to date is **R 191.2 million** which represents **70.3%** of the total salaries budget. The total actual salary cost including councilors' allowances represented **33.6%** of total recalculated operating expenditure for the period which is within the norm of 25-40% of total operating expenses as set by National Treasury circular 71.1.

4.4 Conditional Grants

As at the 28 February 2022, a total of **R 181.4 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. The rollover application for the unspent EPWP grant as at 30 June 2021 to the value of **R 114 674** was declined by Treasury and will be repaid. A total of **R 173.9 million** was spent as at 28 February 2022. The operating grant utilisation is at **31.75%** and the capital grant utilisation was **89.97%** of allocations received to date. Overall grant utilisation is at **87.01%**.

4.5 Cash and Cash Equivalents

An amount of **R 15 103** as accrued in investment income for the month of February 2022. The cash in bank as at 28 February 2022 amounted to **R 122.7 million** and investments amounted to **R 3.8 million** resulting in a total cash and cash equivalents balance of **R 126.5 million**. The average interest rate on investment is at **5.25%**. The cash coverage ratio as at 28 February 2022 is **1.38** based on average of R 70 million monthly fixed operating expenditure. This indicates that the municipality as at 28 February 2022 has enough cash to run its operation for **41.46 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.

4.6 Borrowings

As at 28 February 2022, the loan book was at a total balance of **R 176 million**. The average interest rate on the remaining loan balance is **10.889%**. The debt to revenue ratio is **24.37%** which is within the treasury norm of below 45%. The YTD debt service to income ratio indicates that the costs associated with the debt were funded by **1.82%** of the operating income.

4.7 Outstanding Creditors

The balance of trade payables as at 28 February 2022 was **R 111.7 million**.

A total of **R 74.5 million** or **67%** of invoices remained outside the compliance period of 30 days as at 28 February 2022.

The invoices that are outstanding longer than 150 days, are mostly invoices under dispute. The Heads of Departments are to finalize the disputes with the service providers and/or the service providers have been requested to submit a credit note to cancel the raised invoices.

4.8 Billing Revenue and Debtors

Billing revenue for the month of February 2022 was **R 34.7 million**. Actual collections during January 2021 were **R 13.5 million** which represented **42%** of the January 2022 billed revenue. The collection rate for the financial year based only on the service charges billed in 2021/22 is **48%** which is below the collection rate for the same period in the previous financial year of **57%**. The overall collection rate taking into account gross debtors outstanding at the commencement of the 2021/22 financial year is **38%**.

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 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 28 February 2022 amounted to **R 1.215 billion**. A total of **R 1.105 billion** or **91%** 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 **R 20 209** was written off through the Incentive Scheme for consumers which was effective from 15 June 2021 and was 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 sent to individuals, as and when required, 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.

We proposed that the Budget Funding Plan be revised to align with the adjustment budget and finalized once the Provincial Treasury Assessment Feedback on the 2021/22 Adjustment Budget has been received.

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 eighth 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 recalculated surplus after capital transfers and contributions for the period ending is 28 February 2022 is **R314.9 million**.
 - 3.2 Cash & Cash Equivalents for the period ending 28 February 2022 is **R 122.7 million** excluding the investment of **R 3.8 million** held as security for the loan.
 - 3.3 Capital Expenditure for the period ending 28 February 2022 is **R 171.2 million**.
 - 3.4 Trade Payables for the period ending 28 February 2022 is **R 111.7 million**.
 - 3.5 Trade Receivables for the period ending 28 February 2022 is **R 1.215 billion**.
 - 3.6 Unspent conditional Grants for the period ending 28 February 2022 is **R 25.9 million**.
4. The Committee notes the cash and cash equivalents of **R 122.7 million** translates to a positive cash coverage of **41.46 days** where the National Treasury Norm is 1 – 3 months.
5. The Committee notes have proposed that the Budget Funding Plan is to be revised to align with the adjustment budget and finalized once the Provincial Treasury Assessment Feedback of the 2021/22 Adjustment Budget has been received.