

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Section 80/Mayoral/Council

DIVISION REQUESTING THE SUBMISSION : Finance

TITLE OF THE SUBMISSION

MFMA Section 52(d) Report – Quarter 1 (2020-21)

1. PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the first quarter ending 30 September 2020.

2. OBJECTIVE

The objective of this report is to assist Council to exercise their oversight function to:

- a) Makes rational decisions about the allocation of resources;
- b) Assess the current provision of services, as well as the sustainability of future service delivery;
- c) Assess how officials have discharged their accountability responsibilities;
- d) Ensure transparency in respect of the municipality’s financial position and operating results;
- e) Assess the performance of the municipality measured against preset targets and objectives;
- f) Inform Council on how cash and other liquid resources were obtained and utilized;
- g) Assess whether financial resources were administered in accordance with legislative and regulatory requirements; and
- h) Promote comparative information for prior periods and actual results against budgeted or planned results;

3. LEGISLATIVE REQUIREMENTS:

It is important for a municipality to report in order to comply with comprehensive legislative and contractual requirements, regulations, restriction and agreements. Effective financial reporting should therefore not only involve the presentation of bare financial facts but should also make provision for compliance issues, integration and interpretation. This will enable interested parties to readily comprehend the significant aspects of a municipality’s financial operations.

To inform the mayoral committee of the financial performance and position as required by Section 52(d) of the MFMA.

4. BACKGROUND

In terms of the section 52(d) of the Municipal Finance Management Act (Act No.58 of 2003) (MFMA), the mayor of a municipality must within 30 days of the end of each quarter submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.

Furthermore in terms of section 11(4) (a) of the MFMA, the accounting officer must within 30 days after the end of each quarter table in the municipal council a consolidated report of all withdrawals made in terms of subsection 1(b) to (j) during that quarter.

Financial reports are the primary means of communicating financial information to relevant stakeholders. These reports are made accessible to the Executive Managers for decision making and for them to take relevant actions if the report indicates poor spending or possible over expenditure on some votes. The report also gives the executive mayor and other political leaders information on the state of the municipality's finances in order to allow them to provide oversight.

The 1st Quarter report as at 30 SEPTEMBER 2020 is indicated in the different schedules as listed below.

5. ATTACHMENTS:

- Annex A – Quarterly finance report (sec 52d)**
- Annex B – Salaries report
- Annex C – Bank reconciliation
- Annex D – Debtors age analysis
- Annex E – Creditors age analysis
- Annex F- Financial Performance
- Annex G – Capital Expenditure
- Annex H- Withdrawals report

6. RECOMMENDATION

That the Quarter 1 finance report for 2020/21 be noted.

Annexure A

EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual 1 st Quarter ending September 2020	Actual 4 th Quarter ending JUNE 2020	Trend Analysis
<i>Current Assets</i>			
Debtors balance	R1,017,825,000	R841,781,000	Increase of the debt book by a margin of R176m is due to reduced payment levels by consumers in order to circumvent this in the future the municipality has appointed the services of a debt collection company through the National Treasury Transversal tender and credit control implementation is underway
Cash & cash equivalents:			
Current account balance	R 5 736 701	R 4,200,000	The major decrease in the INVESTEC call account was due to withdrawals made in order to cater for some operational expenditure as the municipality experienced some cash flow constraints.
ABSA (call account balance)	R 37 853 590	R 39,600,000	
INVESTEC (Call account balance)	R 14 557 057	R23,800,000	
<i>Current Liabilities</i>			
Creditors	R 10,140,000	R 9,333,000	Creditors are all paid within 30 the amounts which are indicated as being more than 31 days are due to late submission of invoices to finance.
<i>Actual Revenue and Expenditure</i>			
Operating Revenue	R 244,796,000		At the end of the 1 st quarter, the total operating revenue was 4% ahead of budget mainly because of the equitable share that was received in July and the property rates revenue that was also 4% ahead of budget
Operating Expenditure	R 208,434,000		The main expenditure items for the quarter were employee costs at R49m, bulk purchases at

		R77m and non cash items i.e. debt impairment at R39m
Capital Expenditure	R 26,880,149	Capital expenditure is expected to be at the 40% benchmark by the end of the 2 nd quarter as procurement processes for capital projects are at the final stages.
Collection rate	78%	The low collection rate is due to an increase in households that have reduced income as a direct result of the COVID19 pandemic and are therefore unable to make payments for the monthly accounts. Soft credit control measures are being applied for such households and it is expected that the newly appointed debt collection company will improve the collection rate of the municipality.

GRANTS RECONCILIATION FOR THE MONTH FOR 30 SEPTEMBER 2020

Grant Funding	Allocated	Opening Balance	Set Off Amount	Approved Roll-Over 18-19	20/21 Amount Received	Total received	Spent	% unspent
Equitable Share	148 231 000,00	-	-	-	66 703 000,00	66 703 000,00	66 703 000,00	100%
MIG	26 249 000,00	6 737 525,45	-	-	-	6 737 525,45	5 156 760,43	77%
PMS	-	148 977,90	-	-	-	148 977,90	-	0%
INEP (Municipal)	19 000 000,00	91 880,96	-	-	15 000 000,00	15 091 880,96	14 127 139,36	94%
EPWP COGTA	500 000,00	-	-	-	500 000,00	500 000,00	115 800,00	23%
EPWP NT	1 367 000,00	-	-	-	342 000,00	342 000,00	162 120,00	47%
Cogta-Fire & Resue Services	-	6 000 000,00	-	-	-	6 000 000,00	-	0%
Libraries Plan grant	7 000 000,00	3 361 964,99	-	-	-	3 361 964,99	763 581,45	23%
Recapitalisation: Communication Library grant	10 000 000,00	6 803 277,20	-	-	-	6 803 277,20	874 998,74	13%
FMG	1 550 000,00	-	-	-	1 550 000,00	1 550 000,00	113 764,40	7%
Bontle ke Botho	-	26 043,29	-	26 043,29	-	26 043,29	-	0%
WATER SERVICES INFRASTRUCTURE GRANT	15 825 000,00	-	-	-	5 000 000,00	5 000 000,00	2 751 045,97	55%
NLDTF - Lotto	-	1 327,96	-	1 327,96	-	1 327,96	-	0%
GRAND TOTALS	229 722 000,00	23 170 997,75	-	27 371,25	89 095 000,00	112 265 997,75	90 768 210,35	

6. DISCUSSIONS

The discussions below are broadly categorized under items of financial position (balance sheet), items of financial performance (income statement) and cash flow, as well as other information of key importance such as Asset Management and MFMA Compliance.

6.1 Financial Position

The balance sheet of Council is broadly distinguished into “Assets” (what Council owns) and “Liabilities” (what Council owes) as per Generally Accepted Accounting Principles (GRAP). The difference between assets and liabilities is referred to as the “Net Assets.”

a) Current Assets

Debtors Management and Credit Control Status for the quarter ending 30 September 2020.

At 30 September, the debtor’s book balance of the municipality as attached in annexure D is R 1,017,825,000.

Months	Collection %
June	
July	77
August	82
September	74
Total excl. June.	78%

As indicated above, credit control is continuously being implemented and the services of an accredited debt collection company has been acquired to assist in stabilizing the ever-increasing debt book. It is expected that these measures will assist in reducing the municipal debt book.

Debtors summary at the quarter ending 30 September 2020:

Debtors Amounts owing 0-30 days	Debtors Amounts owing 31-60	Debtors Amounts owing 61-90	Debtors Amounts owing 91-120	Debtors Amounts owing 121-150	Debtors Amounts owing 151-180	Debtors Amounts owing 181-1 Yr	Debtors Amounts owing Over 1 Yr	Total Debtors amount
66,277,000	30,036,000	22,834,000	30,113,000	21,837,000	21,294,000	121,097,000	696,337,000	1,017,825,000

b) Cash and cash Equivalents

Annexure” C” indicate the bank reconciliations prepared for the month of September 2020 with the detail on the bank and cash book balances.

The Council has the following bank accounts:

- FNB Primary bank account
- ABSA bank account Current Bank account
- ABSA short term deposits account
- Investec short term deposits account

After allocation of payments by consumers, transfer is made from FNB account to ABSA account where the reconciliations are performed to the cash book which gives rise to the bank reconciliation report.

The current bank account shows a favorable balance of R5,736,701 as at 30 September 2020.

Total cash of the municipality in the current and short-term deposits accounts is made up as follows:

Total own funds - R29,437,097
 Total grant funds - R28,710,246

c) Current Liabilities

Creditor's Age Analysis

Annexure "E" represents the creditors' age analysis which indicates that at 1st quarter 30 September the municipality had a total of R10,140,000 payable to the Trade creditor.

The municipality has maintained its "current" status for all bulk purchases such as ESKOM, Rand Water and ERWART.

There is an amount of R1,1m indicated as outstanding for longer than 30 days as a result of invoices being submitted late by user departments besides these all expenditure is paid within 30 days of receipt of invoice by the expenditure department.

Below is the summary of the Creditors Age Analysis for the 1st quarter ending 30 September

Creditors owed for 0-30 days	Creditors owed for 31-60	Creditors owed for 61-90 days	Creditors owed for 91-120 days	Creditors owed for 121-150 days	Creditors owed for 151-180 days	Creditors owed for 181days - 1 Yr	Creditors owed for Over 1 Yr	Total
10,140,000	1,143,000	0	0	0	0	0	0	10,140,000

6.2 Financial Performance

Annexure F shows detailed financial performance.

Financial performance shows the results of operations for the given period. It lists sources of revenue and expenses. Surplus or deficit is used to measure financial performance and directly related to the measurement of revenue and expenditure for the reporting period.

Operating expenses are incurred in the course of conducting normal Council business. They are classified by function such as employee related costs, general expenses, finance charges and non cash items such as depreciation and debt impairment.

The total year to date actual revenue at the 1st quarter amounted to R244,796,000 and the total actual expenditure amounted to R208,434,000 the following are the main revenue and expenditure items at the:

a) Main Operating Revenue at the 1st quarter

- Electricity Revenue R84,163,000

- Water Revenue R31,071,000
- Property rates revenue R35,241,000
- Refuse revenue. R8,729,000

b) Main Operating Expenditure at the 1st quarter

- Employee costs R49,853,000
- Repairs and maintenance R4,027,000
- Contracted services R13,889,000
- Debt impairment R39,589,000
- Depreciation R9,962,000

6.2 Capital Expenditure at the end of the 1st quarter ending 30 September 2020

Annexure “G” represents the capital projects of the municipality for the 2020/21 financial year.

At 30 September the capital expenditure incurred amounted to R26,880,149 which is 34% of the total capex budget. The procurement of 3 MIG projects are at an advanced procurement stage and it is expected that the capital expenditure will exceed the 40% expenditure by the end of quarter 2 national treasury benchmark for MIG and other capital grants.

The INEP grant electrification project is currently under way, WSIG as well as Library grant projects are currently at the procurement stage and expenditure is expected before the end of quarter 2.

A total of R4,676,174 was incurred for internally funded projects and that was for the acquisition of a fire engine, the fire engine has been delivered, is registered and has been insured by the municipality.

a) Pro-Rata Operating Comparative Analysis (Budget vs. Actual) annexure F

The Total Performance of the municipality as per our findings and reviews are as follows:

- At the first quarter of the 2020/21 financial year, spending trends ought to be at 18% for capital expenditure and the actual percentage is 34% which reflects a positive variance of 16%.
- The revenue figures are 4% ahead of budget mainly due to the equitable share and other grants that were received in the first quarter of the financial year.
- The expenditure figures are 14% behind the pro rata budget. This figure will however increase with the implementation of the procurement plan. Intervention measures:

: The Supply Chain Management unit submits monthly procurement plan progress to the MM to monitor implementation of the budget.

: Cost Containment measures are still in place to cut down on unnecessary expenditure.

b) Asset Management

There was one incident reported of damages to a municipal asset that is a traffic vehicle that was involved in an accident, a report has been received from the employee that was in possession of the municipal traffic vehicle it seems she was fully authorized to utilize the vehicle and the accident happened during working hours. A claim has been lodged with the municipal insurers and are currently awaiting the assessment report to determine the damage of the vehicle.