

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Section 80/Mayoral/Council

DIVISION REQUESTING THE SUBMISSION : Finance

TITLE OF THE SUBMISSION

MFMA Section 71 Report – December 2020

1. PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the month of December 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.

This report is compiled as per the requirements of Sections 54 and 71 of the Local Government: Municipal Finance Management Act, 56 of 2003 (MFMA).

4. BACKGROUND

With reference to section 71 above, *“the accounting officer must by no later than 10 working days after the end of each month submit to National treasury and other spheres of government a monthly report of the municipality a statement on the implementation of the budget and the state of the financial affairs of the municipality”*.

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 statement on budget implementation as at 31 December 2020 is indicated in the different schedules as listed below.

5. ATTACHMENTS:

- Annex A** – Monthly finance report (sec 71)
- Annex B – October Salaries report
- Annex C – Bank reconciliation
- Annex E – Creditors age analysis
- Annex F- Financial Performance
- Annex G – Capital Expenditure

6. RECOMMENDATION

That the December **2020** finance report be noted.

Annexure A

EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual December 2020	Actual November 2020	Trend Analysis
<i>Current Assets</i>			
Debtors	R1,063,265,151	R1,033,884,340	The debt book has increased by R29.4m due to payment reduction by customers during this month. Furthermore, lockdown has impacted the Municipality negatively.
<i>Cash & cash equivalents:</i>			
Current account balance	R 3 452 644,34	R 6,125,032	Payments are made as and when required for operational needs. We require to keep operations going. The operational expenditure withdrawals are due to cash flow constraints that we have been experiencing as a municipality. DORA grants second tranche were paid out to the Municipality which also included Equitable share and the additional COVID 19 allocation. Hence the call accounts have increased.
ABSA (call account balance)	R 39,413,493	R 21,333,337	
INVESTEC (Call account balance)	R 38,253,212	R 23,057,047	
<i>Current Liabilities</i>			
Creditors	R 6,952,368	R 17,341,169	Creditors are all paid within 30 days of 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 for the month	R 128,113,289	R 74,194,000	Income of R128.1m was realized for the month of December, and the year-to-date revenue is R496.9. This equates 13.2% of the annual budgeted revenue.
Operating Expenditure for the Month	R 72,575,158	R 74,560,775	The expenditure for the month of December has decreased due to cost containment measures and savings realized on bulk purchases.
Employee Costs	R 17,131,729	R16,547,701	The employee costs fluctuate on a monthly basis due to overtime, payment of leave days and bonuses.
Councillors remuneration	R 961,252	R958,762	There is no major variance in the monthly councillors remuneration.

Item of Financial Position/ Performance	Actual December 2020	Actual November 2020	Trend Analysis
Repairs and maintenance	R 1,299,474	R 2,416,482	Spending on repairs must be monitored to ensure assets of council are well maintained to avoid any service interruption. The year-to-date spending is 39% of the budget.
Capital Expenditure for Month	R 42,663,361	R 34,945,775	Capital expenditure was at 44% spending at the end of December. The Treasury norm is that it should be at least 40% at the end of December so the municipality is on par with regards to capex spending
Collection rate	70%	72%	The collection rate has decrease because credit control is not fully implemented in all areas. In addition, COVID 19 strategy must be reviewed

GRANTS RECONCILIATION FOR THE MONTH FOR 31 DECEMBER 2020										
Grant Funding	Main Allocation	Reversed Allocation	Opening Balance	Set Off Amount	Approved Roll-Over 19/20	20/21 Amount Received	Total received	Spent	Unspent	%Spent
Equitable Share	148 231 000.00	148 231 000.00	-	3 427 000.00	-	107 746 000.00	111 173 000.00	111 173 000.00	-	100%
COVID Equitable share Allocation	-	22 409 000.00				22 409 000.00	22 409 000.00	-	22 409 000.00	0%
MIG	26 249 000.00	26 249 000.00	6 737 525.45	2 400 460.24	4 337 064.76	12 030 000.00	16 367 065.21	12 777 662.71	3 589 402.50	78%
PMS	-	-	351 022.00	-	-	-	351 022.00	-	351 022.00	0%
INEP (Municipal)	19 000 000.00	15 000 000.00	91 880.96	91 880.96	-	15 000 000.00	15 000 000.00	15 000 000.00	-	100%
EPWP COGTA	500 000.00	500 000.00	-	-	-	500 000.00	500 000.00	306 487.72	193 512.28	61%
EPWP NT	1 367 000.00	1 367 000.00	-	-	-	957 000.00	957 000.00	737 422.94	219 577.06	77%
Cogta-Fire & Resue Services	-	-	6 000 000.00	-	5 538 524.00	-	6 000 000.00	-	6 000 000.00	0%
Libraries Plan grant	7 000 000.00	7 000 000.00	3 361 964.99	-	2 068 369.00	7 000 000.00	10 361 964.99	1 787 538.22	8 574 426.77	17%
Recapitalisation: Communication Library grant	10 000 000.00	8 800 000.00	6 803 277.20	-	4 300 000.00	8 800 000.00	15 603 277.20	2 348 112.43	13 255 164.77	15%
FMG	1 550 000.00	1 550 000.00	2 931.00	2 931.00	-	1 550 000.00	1 550 000.00	519 349.01	1 030 650.99	34%
Bontle ke Botho	-	-	26 043.29	-	26 043.29	-	26 043.29	-	26 043.29	0%
Water Services Infrastructure Grant	15 825 000.00	15 825 000.00	5 218 351.00	814 427.80	4 313 974.04	5 000 000.00	9 403 923.20	4 286 983.94	5 116 939.26	46%
Energy Efficiency and Demand Side Management Grant			117 300.00	117 300.00						0%
NLDTF - Lotto	-	-	1 327.96	-	1 327.96	-	1 327.96	-	1 327.96	0%
GRAND TOTALS	229 722 000.00	246 931 000.00	28 711 623.85	0.00	20 585 303.05	180 992 000.00	209 703 623.85	148 936 556.97	60 767 066.88	

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 month ending December 2020.

At 31 December, the debtor’s book balance of the municipality as attached is R1,063,265,151.

As indicated above, credit control is continuously being implemented and the services of an accredited debt collection company (Called Ntiyiso Consulting) has been acquired to assist in stabilizing the ever-increasing debt book. It is expected that these measures together with the 3rd party payment system that will allow consumers to make payments without having to come to the municipal offices. will assist in reducing the municipal debt book.

Debtors summary at 31 December:

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
62,489,513	35,620,143	27,198,606	26,385,032	24,977,189	28,493,474	127,461,683	739,756,857	1,063,265,151

b) Cash and cash Equivalents

Annexure " C" indicate the bank reconciliations prepared for the month of December 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 R3,143,102 as at 31 December 2020.

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

Total grant funds	-	<u>R60,767,067</u>
Total own funds		
Current Account	-	R3,143,103
Invested Own funds	-	R10,796,682
Retention	-	<u>R5,634,394</u>
		R19,574,179
 SETA	-	 R468,561

c) Current Liabilities

Creditor's Age Analysis

Annexure "E" represents the creditors' age analysis which indicates that at 31 December the municipality had a total of R6,952,368 payable to the Trade creditors.

Below is the summary of the Creditors Age Analysis for December

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
6,130,107	23,648	798,613	0	0	0	0	0	6,952,368

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 amounted to R496,925,556 and the total actual expenditure amounted to R439,425,738 the following are the main revenue and expenditure items for December:

a) Main Operating Revenue

- Electricity Revenue R25,899,568
- Water Revenue R17,496,949
- Property rates revenue R11,797,002
- Refuse revenue. R2,956,573

b) Main Operating Expenditure.

- Employee costs R17,131,729
- Repairs and maintenance R1,299,474
- Contracted services R5,761,803
- Debt impairment R13,196,000 (Non cash)
- Depreciation R3,221,000 (Non cash)

6.2 Capital Expenditure at December 2020

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

At 31 December the capital expenditure incurred amounted to R42,663,361 which is 44% of the **total** capex budget. The MIG service providers have been appointed. The MIG capital expenditure exceeded the 40% expenditure benchmark set by National Treasury. The actual MIG expenditure at the end of December was 78% and exceeds the benchmark by a margin of 34%.

The INEP grant electrification project is currently under way, the WSIG as well as other Library grant projects are currently at the procurement stage.

A total of R8,542,468 year to date amount has been incurred for internally funded projects and a total of R34,120,892 has been spent year to date on grant capital expenditure.

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:

- As the month of December being the 6th month of the 2020/21 financial year, spending trends ought to be at 40% for capital expenditure and the actual percentage is 44% which indicates that the municipality is on par with regards to the capital budget expenditure expectations.
- The revenue figures are 4% above budget mainly due to the second tranche of equitable share.
- The expenditure figures are 9% behind the pro rata budget. This figure will however increase with the implementation of the procurement plan.

b) Asset Management

There are no insurance claims lodged in December for losses or damages to municipal assets.