

**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 (2022-23)**

**1. PURPOSE**

The purpose of the report is to reflect the financial position of the Municipality for the first quarter ending 30 September 2022.

**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 1<sup>st</sup> Quarter report as at 30 SEPTEMBER 2022 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 2022/23 be noted.

## Annexure A

### EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual 1 <sup>st</sup> Quarter ending September 2022	Actual figures at 30 June 2022	Trend Analysis
<i>Current Assets</i>			
Debtors balance	R1,494,433	R1,408,828	The debt book increased by a margin of R85.6m when compared to the 4th quarter of 2021/22. The implementation of the credit control policy is ongoing to reduce the debt book of the municipality.
<u>Cash &amp; cash equivalents:</u>			
Current account balance ABSA	R6,116	R7,750	Payments are made as and when required for operational needs. we require to keep operations going. Call accounts have increased due to grant amounts received which have been invested in quarter 1 of 2022/23.
Current account FNB	R8,468	R6,211	
ABSA (call account balance)	R9,149	R4,520	
INVESTEC (Call account balance)	R57,155	R21,125	
<i>Current Liabilities</i>			
Creditors	R119,397	R85,060	The trade creditors for quarter 1 of 2022/23 have increase by R34.3m compared to the previous 4 <sup>th</sup> quarter of 2021/22 mainly because of ESKOM and other creditors.
<i>Actual Revenue and Expenditure</i>			
Operating Revenue	R 265,048		The operating revenue figures were 4% behind of budget by a margin of R11m due to the following line items being behind <ul style="list-style-type: none"> <li>• Service charges for water revenue behind by 27%</li> <li>• Rentals behind by 37%</li> <li>• Interest earned at 47%</li> </ul>

Item of Financial Position/ Performance	Actual 1 <sup>st</sup> Quarter ending September 2022	Actual figures at 30 June 2022	Trend Analysis
Operating Expenditure	R 247,521		Operating expenditure is 13% behind budget due to cost containment measures that are implemented.
Capital Expenditure	R 3,036		Grant funding capex is 3.37% spent while own funding capital expenses is at less than 1% spent at the 1 <sup>st</sup> quarter, SCM processes are currently underway for MIG and WSIG projects and expenditure is expected to improve in the 2 <sup>nd</sup> quarter.
Collection rate	55%		The collection rate is 30% behind of budget (85%) it seems as if the municipality is not doing well in terms of collection however this collection is not enough to cater for our monthly expenditure the collection rate must be increased and arrear debt recovered for the municipality to be financially viable and sustainable.

## 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 2022.*

At 30 September, the debtor's book balance of the municipality as attached in annexure D is R 1,494,433.

Collection rate of pervious month billing verses the current receipts

The formular to calculate the collection rate is as follow;

((Gross debtors opening balance + Current billing -Gross debtors closing balance- Bad debts written off)/Current billing revenue)

Months	Collection %
June	
July	45%
August	58%
September	62%
<b>Total excl. June.</b>	<b>55%</b>

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 2022:

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
69,676	48,366	30,822	62,391	25,683	24,669	122,259	1,110,567	1,494,433

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 ABSA account to FNB account where the reconciliations are performed to the cash book which gives rise to the bank reconciliation report.

The current bank account which is FNB and Absa shows a favorable balance of R8,468 and R6,116 as at 30 September 2022.

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

<b>Total grant funds</b>	-	<u>R51,603</u>
<b>Total own funds</b>		
Current Account (FNB) -		R8,468
Current Account (Absa)-		R6,116
Own amount	-	<u>R14,701</u>
		R80,880

c) Current Liabilities

Creditor's Age Analysis

Annexure "E" represents the creditors' age analysis which indicates that at 1<sup>st</sup> quarter 30 September the municipality had a total of R119,397 payable to the Trade creditor mainly because of bulk purchases.

Below is the summary of the Creditors Age Analysis for the 1<sup>st</sup> quarter ending 30 September 2022

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
64,012	43,514	507	1,386	0	0	0	0	119,397

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 1<sup>st</sup> quarter amounted to R265,048 and the total actual expenditure amounted to R247,521 the following are the main revenue and expenditure items at the:

a) Main Operating Revenue at the 1<sup>st</sup> quarter

- Electricity Revenue R75,428
- Water Revenue R42,761
- Property rates revenue R38,586
- Refuse revenue. R10,571

b) Main Operating Expenditure at the 1<sup>st</sup> quarter

- Employee costs R55,489
- Repairs and maintenance R5,793
- Contracted services R17,780
- Debt impairment R39,504
- Depreciation R10,776

## 6.2 Capital Expenditure at the end of the 1<sup>st</sup> quarter ending 30 September 2022

CAPITAL PROJECTS FOR 2022/23 SEPTEMBER 2022											
GRANT FUNDED PROJECTS											
Type	Vote Number	Vote Description	Department	Source of Funding	Budget	Curr Mth Exp	Commitment	YTD Movement	Unspend Bud	Perc	
A	31106456420LBD49ZZW7	RFID GATES	Libraries	LP	50 000.00	-	-	-	50 000.00	-	
A	31106460420CLC95ZZWM	FURNITURE	Libraries	LP	1 469 898.00	-	-	-	1 469 898.00	-	
A	31106470020CLC84ZZWM	COMPUTER HARDWARE	Libraries	Recap	450 000.00	-	-	-	450 000.00	-	
A	31106473520CLD03ZZW2	UPGRADING RENSBURG & VISCHKUIL LIBRARY	Libraries	Recap	700 000.00	-	-	-	700 000.00	-	
A	31106473520CLD08ZZWM	NEW BOOKS	Libraries	Recap	1 662 929.00	-	-	-	1 662 929.00	-	
A	31106473520CLD55ZZWA	AIRCONS	Libraries	LP	680 000.00	-	-	-	680 000.00	-	
A	31206473520CGD50ZZWM	RESCUE VEHICLE	Fire Fighting and Protection	Cogta	4 200 000.00	-	-	-	4 200 000.00	-	
A	31656473520FMC69ZZW5	INSTAL GRAND STAND PAVILLION HED EXT 23	Sports and Recreation	MIG	2 000 005.00	-	-	113 665.44	1 886 339.56	5.68	
A	34206470020CFD58ZZWM	COMPUTER HARDWARE (FMG)	Finance	FMG	200 000.00	-	-	-	200 000.00	-	
A	37156432020IPD69ZZW7	SWITCHING STATION_IMPUMELELO	Electricity	INEP	7 695 500.00	-	-	-	7 695 500.00	-	
A	37156432420IPC61ZZW4	ELECTRIFICATION- OBED NKOSI	Electricity	INEP	8 160 000.00	-	-	-	8 160 000.00	-	
A	37156437020IPD12ZZW7	ELECTRIFICATION- IMPUMELELO - MV	Electricity	INEP	9 602 500.00	-	-	-	9 602 500.00	-	
A	37156437420IPD13ZZWM	INSTALLATION OF HIGHMASTS AT LESEDI	Electricity	MIG	2 971 000.00	-	-	-	2 971 000.00	-	
A	37306472420FMD01ZZW4	CONST ROADS & S/W RATANDA 1;3;6 & OBED N	Roads and Stormwater	MIG	2 350 000.00	737 742.04	-	1 694 889.29	655 110.71	72.12	
A	37306472420FMD15ZZW8	CONSTR ROADS & STORMWATER JAMESON PARK	Roads and Stormwater	MIG	9 800 000.00	-	-	482 952.64	9 317 047.36	4.93	
A	37306472420FMD52ZZW7	CONSTR ROADS & STORMWATER IMPUMELELO	Roads and Stormwater	MIG	5 916 000.00	-	-	-	5 916 000.00	-	
A	37306472420FMD53ZZWA	CONSTR ROADS & STORMWATER KWANZENZELE P1	Roads and Stormwater	MIG	4 500 000.00	-	-	-	4 500 000.00	-	
A	37356449420FMD57ZZW5	DRY SANITATION TOILET UNITS (RURAL AREA)	Waste Water Management	MIG	2 160 995.00	-	-	522 900.00	1 638 095.00	24.20	
A	37356449420WGD19ZZW4	UPGR OF POWER SUP,LIC & REFURBISHMENT_DEVON WWTW	Waste Water Management	WSIG	9 874 000.00	-	-	-	9 874 000.00	-	
A	37456446020WGD17ZZWM	REPLACEMENT OF ASBESTOS PIPES LESEDI P4	Water Management	WSIG	9 000 000.00	-	-	-	9 000 000.00	-	
					<b>Total Grant funded</b>	<b>83 442 827.00</b>	<b>737 742.04</b>	<b>-</b>	<b>2 814 407.37</b>	<b>80 628 419.63</b>	<b>3.37</b>
INTERNAL FUNDED PROJECTS											
Typ	Votenummer	Description	Department	Source of Funding	Budget	Curr Mth Exp	Commitment	YTD Movement	Unspend Bud	Perc	
A	34106474020CFC44ZZHO	OVERHAUL OF FUEL PUMPS	Finance	Internal Funding	4 000 000.00	-	-	-	4 000 000.00	-	
A	35206470020CFC84ZZWM	COMPUTER HARDWARE	ICT	Internal Funding	-	200 000.00	-	221 300.00	221 300.00	-	
A	37156433020CFC66ZZW4	ELECTRIFICATION	Electricity	Internal Funding	9 800 000.00	-	-	-	9 800 000.00	-	
A	37156435020CFC10ZZWM	JAMESON PARK SUBSTATION	Electricity	Internal Funding	8 000 000.00	-	-	-	8 000 000.00	-	
					<b>Total Internal fund</b>	<b>21 800 000.00</b>	<b>200 000.00</b>	<b>-</b>	<b>221 300.00</b>	<b>21 578 700.00</b>	<b>1.02</b>
					<b>TOTAL CAPITAL</b>	<b>105 242 827.00</b>	<b>937 742.04</b>	<b>-</b>	<b>3 035 707.37</b>	<b>102 207 119.63</b>	<b>2.88</b>

At 30 September the capital expenditure incurred amounted to R3,036 which is 2.8% of the total capex budget. The procurement of MIG and WSIG projects are at an advanced procurement stage and it is expected that the capital expenditure will increase by the end of quarter 2 and will meet the national treasury benchmark for MIG and other capital grants of 40%.

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