

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 2 (2020-21)

1. PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the first quarter ending 31 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.

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 2nd Quarter report as at 31 DECEMBER 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 2 finance report for 2020/21 be noted.

Annexure A

EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual 2 nd Quarter ending 31 December 2020	Actual 1 st Quarter ending September 2020	Trend Analysis
<i>Current Assets</i>			
Debtors balance	R1,063,265,151	R1,017,825,000	Increase of the debt book by a margin of R45m the covid19 pandemic has further reduced the payment levels by all classes of consumers. Ntiyiso debt collection services are on the ground and credit control is ongoing in order to reduce the debt book of the municipality .
<i>Cash & cash equivalents:</i>			
Current account balance	R 3,452,644.34	R 5 736 701	The call accounts comprise of both own funds as well as ring fenced grant funds. 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 37,853,590	
INVESTEC (Call account balance)	R 38,253,212	R14,557,057	
<i>Current Liabilities</i>			
Creditors	R 6,952,368	R 10,140,000	At the end of the 2 nd quarter, the municipality managed to pay all the bulk purchases on time and is thus current on the bulk accounts. There were invoices amounting to R800k that were submitted late therefore were older than 30 days according to the invoice date but were paid within 30 days of receipt by the expenditure department.

<i>Actual Revenue and Expenditure</i>			
Operating Revenue	R 496,926,000	244,796,000	The operating revenue increased by a margin of R252m when compared to the 1 st quarter, the total operating revenue was 4% ahead of budget mainly because of the equitable share that was received in December and the property rates revenue that was also 4% ahead of budget as well as the water revenue that was 14% ahead of budget at the end of the 2 nd quarter.
Operating Expenditure	R 439,426,000	R208,434,000	The main expenditure items for the quarter were employee costs at R100.5m, bulk purchases at R168m and non-cash items i.e. debt impairment at R79m
Capital Expenditure	R 42,663,361	R26,880,149	Capital expenditure was expected to be at the 40% benchmark by the end of the 2 nd quarter as per National treasury guideline the actual % spending at the end of the 2 nd quarter was 44% as procurement processes for capital projects are at the final stages.
Collection rate	87%	78%	The low collection rate increased due to monies being owed to the municipality by a government department being paid in the month of October that pushed the collection rate up for the month of October also pushing it up for the 2 nd quarter.

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 quarter ending 31 December 2020.

At 31 December 2020, the debtor's book balance of the municipality as attached in annexure D is R 1,063,265,151.

Months	Collection %
October	119
November	73
December	70
Total	87%

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 31 December 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
62,489,513	35,620,143	27,198,606	26,385,032	24,977,189	28,493,474	127,461,6683	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 own funds	-	R19,574,179
Total grant funds	-	R60,767,067
SETA	-	R468,561

c) Current Liabilities

Creditor's Age Analysis

Annexure "E" represents the creditors' age analysis which indicates that at 2nd quarter 31 December 2020 the municipality had a total of R6,952,368 payable to the Trade creditors.

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

There is an amount of R800k 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 2nd quarter ending 31 December 2020

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 181 days - 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 at the 2nd quarter amounted to R496,925,556 and the total actual expenditure amounted to R439,425,738 the following are the main revenue and expenditure items at the:

a) Main Operating Revenue at the 2nd quarter

- Electricity Revenue R165,887,000
- Water Revenue R74,116,000
- Property rates revenue R70,638,000
- Grants R130,636,000

b) Main Operating Expenditure at the 2nd quarter

- Employee costs R100,542,000
- Bulk purchases R168,413,000
- Repairs and maintenance R9,117,000
- Contracted services R33,442,000

- Debt impairment R79,178,000
- Depreciation R9,962,000

6.2 Capital Expenditure at the end of the 2nd quarter ending 31 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:

- At the 2nd quarter of the 2020/21 financial year, spending trends ought to be at 40% for capital expenditure and the actual percentage is 44% which reflects a positive variance of 34%.
- The revenue figures are 4% ahead of budget mainly due to water revenue, property rates revenue and the equitable share and other grants that were received in the 2nd quarter of the financial year.
- The expenditure figures are 9% 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

In the 2nd quarter, 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.

