

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 (2021-22)

1. PURPOSE

The purpose of the report is to reflect the financial position of the Municipality for the first quarter ending 31 December 2021.

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 2021 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 2021/22 be noted.

Annexure A

EXECUTIVE SUMMARY

Item of Financial Position/ Performance	Actual 2nd ^t Quarter ending 31 December 2021	Actual 1 st Quarter ending September 2021	Trend Analysis
<i>Current Assets</i>			
Debtors balance	R1.269,593,284	R1,223,381,221	The debt book increased by a margin of R46,212 when compared to the 1 st quarter. Ntiyiso debt collection services are on the ground and have collected a total amount of R75m since January 2021. The implementation of the credit control policy is ongoing in order to reduce the debt book of the municipality.
<u>Cash & cash equivalents:</u>			
Current account balance ABSA	R3,123,309	R 11,210,038	Payments are made as and when required for grant payments and for operational needs. All service providers are paid within 30 days and at the end of the 2 nd quarter the municipality was up to date with all payments for Eskom, Randwater and ERWAT
Current account FNB	R10,257,583	R7,710,530	
ABSA (call account balance)	R2,080,859	R 9,101,971	
INVESTEC (Call account balance)	R11,398,693	R 7,545,491	
<i>Current Liabilities</i>			
Creditors	R7,729,446	R 7,125,767	All creditors including the bulk payments for Eskom, Rand Water and ERWAT are all paid within 30 days.
<i>Actual Revenue and Expenditure</i>			
Operating Revenue	R531,808,000	R 286,164,000	The operating revenue figures were 1% ahead of budget by a margin of R5.1m however electricity revenue was behind budget by a margin of R14m at R190m vs budget of R204.4m at the end of the 2 nd quarter Water

Item of Financial Position/ Performance	Actual 2nd ^t Quarter ending 31 December 2021	Actual 1 st Quarter ending September 2021	Trend Analysis
			was behind budget by a margin of R6m and the fines income was behind budget by a margin of R15m
Operating Expenditure	R495,930,000	R 240,871,000	Operating expenditure is 5% behind budget, stringent cost containment was implemented in the 2 nd quarter
Capital Expenditure	R45,557,936	R 10,436,277	Total Grant funding capex is 41% spent at the 2 nd quarter the budgeted capex for the year is R65.5m (Grant is 45.8% spent and internally funded projects were at 6%)
Collection rate	76%	83%	.The collection rate is 2% ahead of budget that is 74% the low collection is putting strain on the municipality's cash flow. 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 2021.

At 31 December, the debtor's book balance of the municipality as attached in annexure D is R 1,269,593,000.

Months	Collection %
October	83%
November	69%
December	76%
Total excl. June.	76%

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 2021:

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
59,435,060	29,816,543	28,700,509	28,445,066	26,583,690	25,309,827	134,509,861	936,792,728	1,269,593,284

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 R10,257,583 and R3,123,583 as at 31 December 2021.

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

Total grant funds	-	<u>R42,547,751</u>
Total own funds		
Current Account (FNB)	-	R10,257,583
Current Account (Absa)	-	R3,123,309
Own Funds Invested	-	
Retention	-	R5,118,977
SETA	-	<u>R 585,630</u>
		<u>R5,704,607</u>

c) Current Liabilities

Creditor's Age Analysis

Annexure "E" represents the creditors' age analysis which indicates that at 2nd quarter 31 December 2021 the municipality had a total of R7,729,446 payable to trade creditors.

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

Below is the summary of the Creditors Age Analysis for the 1st quarter ending 30 September 2021

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
7,729,446	0	0	0	0	0	0	0	7,729,446

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 R531,808,000 and the total actual expenditure amounted to R495,930,000 for the line items of revenue and expenditure refer to annexure F.

6.3. Capital Expenditure at the end of the 2nd quarter ending 31 December 2021

At 31 December 2021 the capital expenditure incurred amounted to R45m which is 41% of the total capex budget. All but 1 MIG projects have been appointed and the WSIG, INEP and some Social development grant projects are under way